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The impact of good corporate governance on corporate Value through profitability

Siti Sunrowiyati
Sekolah Tinggi Ilmu Ekonomi Kesuma Negara (STIEKEN) Blitar, Indonesia

Corresponding Author: **Siti Sunrowiyati**

Abstract
This research aims to analyze the effect of good corporate governance on profitability, good corporate governance on corporate value, analyze the effect of profitability on corporate value, and analyze the effect of good corporate governance on corporate value through profitability. The analysis technique uses SEM-PLS. The results of the analysis show that good corporate governance affects profitability, good corporate governance affects corporate value, profitability affects corporate value, and good corporate governance affects corporate value through profitability.

Keywords: good corporate governance, profitability, corporate value

1. Introduction

Corporate value is the investor's perception of the company, which is often associated with the stock price, because the current stock price reflects investors' assessment of the company in the future. The main goal of the company is to increase the value of the company. Corporate value is very important because high corporate value will be followed by high prosperity for shareholders, so that shareholders do not hesitate to invest the capital that shareholders have in the company. One of the ups and downs in corporate value is influenced by financial performance. The tool used to determine financial performance is a financial report that is prepared in each end of the period which contains overall financial accountability.

Investors make an overview of a company by looking at financial ratios as an investment evaluation tool, because financial ratios reflect the level of the company's conditions. If investors want to see how much the company produces a return on the investment that investors have invested, what will be seen first is the profitability ratio. Profitability can be seen through Return on Assets (ROA) and Return on Equity (ROE). ROA and ROE are one of the profit ratios. The higher this ratio, the greater the value of the company's profitability, which in the end can be a positive signal for investors to invest in obtaining a certain return. The rate of return obtained describes how good the company is in the eyes of investors. If the company manages to book a large profit rate,

The process of maximizing corporate value will result in a conflict of interest between managers and shareholders (company owners) which is often called the agency problem. It is not uncommon for management, namely company managers to have other goals and interests that are contrary to the main objectives of the company and often ignore the interests of shareholders. Conflict between managers and shareholders or often referred to as agency problems can align these interests so that agency costs arise. There are several alternatives to reduce agency cost, including the existence of share ownership by management and institutional ownership (Kadarusman, 2012) [10].

Corporate value is a measure of the success of the implementation of financial functions. The purpose of analyzing the company's financial statements, namely to assess or evaluate a performance, especially the company's management in a period, as well as to determine what strategies should be implemented in the next period if the company's previous goals have been achieved. This makes corporate leaders realize that managing a company in the information age with a free and open economic system is becoming more complex. The more complex the company's management activities will increase the need for good corporate governance practices to ensure that management runs well. By giving priority to improving the implementation of Good Corporate Governance, company can lead to increased performance. A well-managed company will foster customer confidence and gain trust from the market (Ramadhani, 2009) [15].

Often the concept of development does not pay attention to the concept of sustainability, looking at natural resource and environmental factors only determined based on its progressive value. For this reason, it is necessary to focus on the achievement of the concept of Good Corporate Governance as a prerequisite for achieving the use of sustainable principles for natural resources and the environment.

The realization of the concept of Good Corporate Governance is a prerequisite for getting an effective balance between environment and development (Rudito and Famiola, 2013).

Corporate Governance problems arise because of the separation between ownership and control of the company. This separation is based on agency theory, in which case management tends to increase its personal profit rather than corporate goals. Apart from having good financial performance, the company is also expected to have good governance (Yuniasih and Wirakusuma, 2007) [21]. Carningsih (2009) [4] argues that with one of the mechanisms for Good Corporate Governance, it is hoped that monitoring of company managers can be more effective so that it can improve financial performance and corporate value. So if the company implements the Good Corporate Governance system, it is expected that the financial performance will increase for the better,

Research on Good Corporate Governance on corporate value also has differences. Research conducted by Dian and Lidyah (2013) [5] resulted in the conclusion that managerial ownership has a negative effect on corporate value. This research contradicts the research conducted by Susanto (2012) [20] which states that managerial ownership has a positive effect on corporate value. Research on the relationship of institutional ownership to corporate value conducted by Dian and Lidyah (2013) [5] resulted in the conclusion that institutional ownership has a positive effect on corporate value. However, this conclusion is not in line with the research conducted by Susanto (2012) [20], resulting in the conclusion that institutional ownership does not have a significant effect on corporate value.

2. Literature review

2.1 Corporate Value

Keown (2004: 17) [12] views that corporate value is the market value of debt securities and outstanding shareholder equity. Corporate value is the investor's perception of the company's success rate which is often associated with stock prices and profitability. Corporate value can provide maximum prosperity for shareholders if the company's share price increases. The higher the share price, the higher the shareholder's wealth. In order to achieve corporate value, investors generally leave management to professionals. Professionals are positioned as managers or commissioners.

Brigham and Erdhadt (2005: 518) [3] define corporate value as Corporate value which is the present value of expected free cash flow, discounted at a weighted average cost of capital. Corporate value is the present value of future free cash flows at a discount rate according to the weighted average cost of capital. Free cash flow is cash flow available to investors (creditors and owners) after calculating all expenses for company operations and expenses for investment and net current assets. Corporate value according to Sartono (2010) [19] is the selling point of a company as an operating business. Any excess in the selling value over the liquidation value is the value of the management organization that runs the company. Companies that sell their shares to the public (go public), an indicator of the value of the company is the price of the shares being traded. Corporate value will be measured using Tobin's q ratio. Tobin's q is one of the ratios considered to provide the best information, because this ratio can explain various phenomena in the company's activities. Business or business appraisal according to Ruky (1999) [18] is an activity to estimate the value of a company (business) which leads to an assessment of the interest, participation or ownership (business ownership interest) of a company. In general language, business ownership interest is equity or shares.

2.2 Profitability

Profitability is a ratio to measure the company's ability to generate profits by using company-owned resources such as assets, capital, or company sales. Profitability ratios have goals and benefits, not only for business owners or management, but also for parties who have a relationship or interest with the company. According to Kasmir (2008: 196), the profitability ratio is a ratio to assess a company's ability to seek finance. This ratio also provides a measure of the level of management effectiveness of a company. This is shown by the profit generated from sales and investment income. The point is that the use of this ratio shows the efficiency of the company.

2.3 Good corporate governance

According to Effendi (2009) [7], good corporate governance is a set of systems that regulate and control a company to create added value for stakeholders. According to Gill and Obradovich (2012) [8], good corporate governance is a series of customary processes, policies, rules, and institutions, which influence the direction, management, and control of a company or corporation. Corporate governance also includes the relationship between the stakeholders involved and the objectives of managing the company.

The World Bank defines corporate governance as a combination of laws, regulations and practices carried out by the private sector on a voluntary basis that allows companies to attract financial capital and labor, perform efficiently, and with all of this can sustainably produce value. long-term economic value for its shareholders, while at the same time paying attention to the interests of stakeholders and society as a whole (Maasen, 2000).

2.4 Research Hypothesis

The hypothesis in this study is formulated as follows

H1:Good corporate governance effect on profitability.
H2:Good corporate governance affect corporate value.
H3:Profitability has a positive effect on corporate value.
H4:Good corporate governance affect corporate value through profitability.

3. Research methods

3.1 Population and Sample Research

The population in this study were 45 companies listed in LQ 45 on the IDX in the 2015-2019 period. The sample in this study were companies that were included in the LQ45 on the Indonesia Stock Exchange in the period 2015 - 2019. The determination of the number of samples used purposive sampling technique, which is a sampling method based on certain criteria. Thus the sample of this study was 24 companies with 120 observations.

3.2 Operational definition of variables

a. Good corporate governance

Good Corporate Governance is a principle applied by the company to create added value, improve performance and maintain company sustainability. Good corporate governance is proxied by the proportion of Independent Commissioners.

b. Profitability

Profitability is a ratio to assess a bank's ability to earn profits or profits in a certain period of all sources of funds used, which is proxied by ROI.

c. The value of the company

Corporate value is the value or market price applicable to the company's general shares. Corporate value as measured by Tobin's Q.

3.3 Data Analysis Technique

The data analysis technique used in this study was a structural equation modeling approach based on Partial Least Square (PLS). PLS is a powerful analytical method because it is not based on many assumptions.

4. Research results and discussion

4.1 Research result

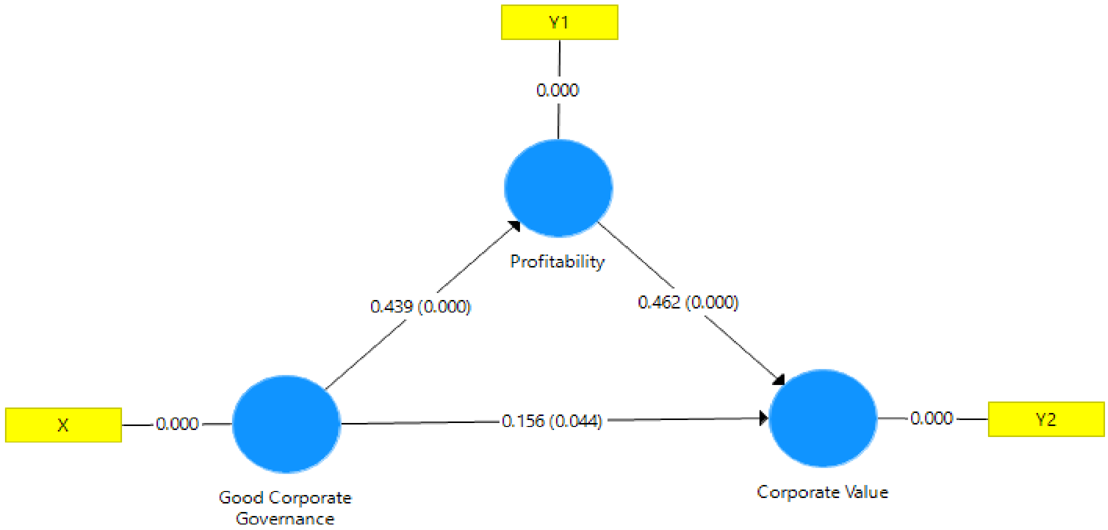
The SEM-PLS analysis results can be seen the effect of each variable in the following table.

Table 1: The Influence of Good Corporate Governance on Corporate value through Profitability

Independent Variable	Intervening Variable	Dependent Variable	Direct Effect	P Value	Indirect Effect	Total Effect	Information
Good Corporate Governance	Profitability	-	0.439	0,000	-	-	Significant
Good Corporate Governance	-	Corporate Value	0.156	0.044	-	-	Significant
-	Profitability	Corporate Value	0.462	0,000	-	-	Significant
Good Corporate Governance	Profitability	Corporate Value	0.156	0.002	0.203	0.359	Significant

Source: Processed data.

Based on the table above, it can be described as follows.



Picture 1: SEM-PLS Analysis Results

Based on table 1 and figure 1, it can be explained as follows

1. Good corporate governance has a positive and significant effect on profitability with a coefficient value of 0.439 and a significance value of 0.000 less than 0.05, thus the first hypothesis which states that good corporate governance affects profitability is statistically tested.
2. Good corporate governance has a positive and significant effect on corporate value with a coefficient value of 0.462 and a significance value of 0.000 less than 0.05, thus the second hypothesis which states that good corporate governance affects corporate value is statistically tested.
3. Profitability has a positive and significant effect on corporate value with a coefficient value of 0.156 and a significance value of 0.044 which is smaller than 0.05, thus the third hypothesis which states that profitability has an effect on corporate value is statistically tested.
4. The total effect of good corporate governance on corporate value through profitability is 0.203 greater than the direct effect of 0.156 with a significance value of 0.002, thus the fourth hypothesis is statistically tested.

4.2 Discussion of research results

1) Effect of good corporate governance on profitability

Companies listed in LQ 45 always implement good corporate governance consistently in order to become the company's work culture. Independent Commissioners can represent the interests of investors so that management works seriously. If the presence of many Independent Commissioners and the fairer an impact on trading volume, which reflects that the presence of Independent Commissioners can attract investors, because they are truly independent so that the performance of the Independent Commissioners is really good, which has an impact on the rising market value, reflected in investors trusting and much in demand by investors.

Good corporate governance is the principle-principle which underlies a company management process and mechanism based on laws and regulations and business ethics. The implementation of good GCG principles can increase profitability and long-term economic value for investors and stakeholders. The implementation of GCG can be driven from two sides, namely ethics and regulations. Ethical drive (ethical driven) comes from the awareness of individual business people to carry out business practices that prioritize the survival of the company, the interests of stakeholders and avoid ways of creating temporary profits.

Management believes that good corporate governance can have a positive impact on the achievement of business results, increase company credibility, and achieve the company's vision to become a reliable company listed in LQ 45 based on high integrity and customer satisfaction oriented. Every individual in the company plays an active role and provides full support in efforts to improve and improve various aspects of the company's operations, such as: increasing corporate value in order to meet the needs of all stakeholders, providing products that are in accordance with customer needs, improving operating systems and governance, developing resources. human resources, and improvement of information systems and technology. In order to realize good corporate governance, especially to improve organizational effectiveness and internal control, the company always creates and maintains operational system procedures that are efficient and are carried out consistently. Applicationgood corporate governance can provide added value for stakeholders to the community in facing dynamic company challenges and risks, with prioritizing accountability, transparency and accountability in a healthy and competitive business continuity for the long term. The concept of good corporate governance emphasizes the importance of obtaining correct, accurate, and timely information for shareholders as well as the obligation to make accurate, timely, and transparent disclosures of all information regarding company performance, ownership, and stakeholders. The results of this study are consistent with Ahmed and Hamdan (2015) who state that corporate governance affects profitability.

2) Effect of good corporate governance on corporate value

Good corporate governance which is proxied by the proportion of independent commissioners affecting corporate value. This shows that the existence of independent commissioners has an impact on increasing or decreasing corporate value. The existence of independent commissioners has been regulated by the Indonesia Stock Exchange (BEI) through IDX regulations. This regulation implies that companies listed on the Exchange must have independent commissioners who are proportionally equal to the number of shares owned by minority shareholders. This matter prove that the independent board of commissioners is capable of performing a monitoring function to oversee policies and activities carried out by the board of directors.

The existence of independent commissioners in the company does not provide an effective contribution to the process of preparing higher quality financial reports. Companies listed in LQ 45 as a public company strongly support the implementation of good corporate governance, which includes transparency, accountability, responsibility, independence and fairness. Understanding of these principles is continuously instilled in all employees of the company. This is part of the Company's commitment to maintain trust and is solely for the benefit of shareholders. The company always makes improvements in implementing good corporate governance based on the prevailing laws and regulations. The Board of Directors believes that the practice of good corporate governance that is transparent within the company will strengthen the Company's competitiveness in the future. Thus the company can lead in the same business competitiontight kin.

In principle, an increase in shareholder wealth means an increase in corporate value, so that corporate value is considered important to keep shareholders satisfied with company management and willing to invest in the company. In addition, corporate value is also important for potential investors, so that potential investors are sure to invest in the company because the prosperity of its shareholders is well considered. The results of this study are consistent withJo and Harjoto (2011) [9], Retno and Priantinah (2012) [16], as well Dianawati and Fuadati (2016) [6] who discussedsay that good corporate governance affect corporate value.

3) Effect of profitability on corporate value

High profitability which is proxied by ROI can increase corporate value. There is usually a high profitability of the companycarry out corporate financing decisions that rest on the financial hierarchy, because investors react positively to share prices. Managerially, this also provides an understanding that investors in the capital market have a good view of the profitability of companies that are listed in LQ 45. Managerially, this provides an understanding that one of the goals of public companies is to attract more investors to buy company shares. One of the ways to attract investors to buy company shares is by increasing profitability. For a manager, corporate value is a measure of the work performance he has achieved. Indirectly, this is seen as an ability to increase the prosperity of shareholders, which is the company's goal. For investors, an increase in corporate value will attract these investors to invest in the company because the company's stock price has increased. The results of this study are in line with Yendrawati and Pratidina (2013), as well as Purwaningsih and Wirajaya (2014). which states that performance has an effect on corporate value.

4) Influence good corporate governance to corporate value through profitability

Profitability mediates the effect of good corporate governance on corporate value. Good corporate governance is a system that regulates and controls a company that creates added value for all stakeholders, so that shareholders can obtain information correctly and on time, and the company is obliged to make transparent, timely, accurate disclosures of all ownership and stakeholder information. in the form of profitability. The consistent application of the principles of good corporate governance has been shown to improve the quality of financial reports which can also be an obstacle to performance engineering activities resulting in financial reports not depicting the fundamental value of the company, thus impacting on increasing corporate value. Good corporate governance is one of the keys to a company's success to grow and be profitable in the long term, while winning global business competition. The implementation of good corporate governance is one of the tools to build investor confidence.

5. Conclusion

Based on the discussion that has been described, it can be concluded as follows

1. Good corporate governance affect profitability, which means that if the company implements good corporate governance, in this case the greater the proportion of independent commissioners, the more investors trust in the company, will be responded to by investors by buying company shares, so that stock trading will

increase.
2. Good corporate governance affects the value of the company, which means that companies that continually make improvements in implementing good corporate governance based on applicable laws and regulations, because good corporate governance that is transparent within the company will build trust and strengthen the company's competitiveness in the future.
3. Profitability affects corporate value, this proves that the amount of profitability value is relevant information for investors as a basis and material for consideration in making investment decisions in the capital market affect corporate value.
4. The implementation of good corporate governance, which is reflected in the proportion of independent commissioners, will be responded to by investors by being willing to buy shares, because the proportion of independent commissioners illustrates that the company is running transparency, thus the financial performance described in stock trading has increased, this has implications for competitive share prices.

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