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FINANCIAL PERFORMANCE ON FIRM VALUE WITH CORPORATE GOVERNANCE AS MODERATING VARIABLE

Agus Widodo¹ and Bambang Hadi Nugroho²

Faculty of Economy and Business, Sebelas Maret University Surakarta,
Central Java, Indonesia

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ABSTRACT

This study aims to analyze the effect of financial performance on firm value with corporate governance as a moderating variable. This research method uses quantitative methods. Samples were taken using the purposive method. The sample in this study is the manufacturing sector companies listed on the Indonesia Stock Exchange for the 2016-2020 period, totaling 46 companies. The independent variables used are financial performance as a proxy for Return on Assets (RoA), the dependent variable is firm value as measured by Tobin's Q and the moderating variable is GCG (Good Corporate Governance) with a proxy for the size of the board of directors. The results of this study indicate that financial performance with ROA variable has no significant effect on firm value as measured by Tobin's Q, GCG moderating variable with board of directors' size proxy has a significant effect on moderating financial performance (ROA) on firm value.

KEYWORDS: Financial performance, RoA, GCG, Board of Directors, Value of the company

1. INTRODUCTION

Today's company competition is getting tougher. Companies must be able to improve their performance so that the targeted goals can be achieved. One of the important goals of establishing a company is to increase the welfare of its owners or shareholders or maximize shareholder wealth by increasing the value of the company. Firm value is very important because it reflects the company's performance which can affect investors' perceptions of the company. The value of the company is often associated with stock prices, where the higher the stock price, the value of the company and the prosperity of shareholders also increase [1][2]. If the company has not made an offering of shares to be purchased by the public for the first time or more commonly known as an IPO (Initial Public Offering), the value of the company is assessed by how much the prospective buyer is willing to pay when the company is sold, while for companies that have conducted an IPO, the value The company can be seen through the value of the company's shares outstanding in the capital market. Tobin's Q is one method that can be used to measure firm value. This ratio is considered to provide the best information because this ratio can explain various phenomena in the company's activities [3][4][5].

High stock prices make the value of the company also high. A high company value will make the market believe not only in the company's current performance but also in the company's prospects in the future. Maximizing the value of the company is very important the company because maximizing the value of the company also maximizes the prosperity of shareholders which is the main goal of the company [6][7]. The higher the value of the company, the more prosperity will be received by the owner of the company. Firm value is considered important to reflect the company's performance so that it affects investors' perceptions of the company.

The value of the company can be influenced by the size of the profitability generated by the company. probability is the extent to which the company generates a profit from the company's sales and investments. Profitability can be used to estimate a company's financial performance, including Return on Assets (ROA) and Return on Equity (ROE) [8]. ROA is a company's financial ratio related to profit potential measuring the company's ability to generate profits or profits at a specific level of income, assets, and share capital. A high ROA value is a positive signal for investors that the company is in good condition or is profitable. The function of ROA is to measure the effectiveness of a company by utilizing its assets to generate profits [9].

The important factor in increasing the value of the company is Good Corporate Governance (GCG) [10]. GCG is very important to be implemented in Indonesia because it is considered capable of preventing/reducing the occurrence of agency conflicts, especially for companies in Indonesia where the majority of ownership characteristics are concentrated or owner-controlled firms [11]–[13]. The implementation of GCG indicates that the company has been managed properly in accordance with the wishes of investors so that investors will respond positively to the company and will request shares [14][15]. The existence of high demand for shares will increase the stock price [16]. This will show the value of the company is also increasing. Various studies have examined the impact of financial performance on firm value, (Lau, 2016) found that ROA had a significant positive effect on firm value. Research obtained the results that ROA has no significant effect on firm value [17]. Mansur and Tangl, 2020 stated that ownership structure affects financial performance [18][19]. Mukhtaruddin et al. 2019 show that good corporate governance has a positive and insignificant effect on firm value. Financial performance significantly strengthens the relationship between good GCG and CSR on firm value [20].

In this research aims to analyze the effect of financial performance on firm value with corporate governance as a moderating variable. This study uses purposive sampling and obtains 46 samples of manufacturing companies listed on the Indonesian stock exchange for the period 2016 – 2020.

2. METHODOLOGY

The type of population contained in this study was obtained from manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2016 – 2020. The sampling method used in this study was the purposive sampling method, which is the sampling process determined based on criteria adapted

to the research objectives. The following sample criteria are used in this study, namely (a) publicly listed companies on the Indonesia Stock Exchange in the 2016-2020 period in the manufacturing sector, (b) companies publishing annual financial statements for the period 31 December 2016 – 31 December 2020 respectively. - successively, (c) Completely available data (data as a whole is available in the publication of Corporate Governance, PER (Price Earning Ratio) data, and company performance, (d) Company financial reports in rupiah, not in foreign currency. This study uses a quantitative approach because the data used are in the form of numbers and the data is a tool to test the influence between variables. In this study, the type of data used is secondary data. With secondary data, the data collected is in the form of company annual reports obtained from manufacturing companies listed on the IDX through the Indonesia Stock Exchange website, namely www.idx.co.id.

In this study, the independent variable used is financial performance as measured by ROA (Return on Assets), the dependent variable is firm value measured by Tobin's Q, Corporate governance as a moderating variable proxied by the number of boards of directors, and company age as a control variable.

a. To obtain the ROA value can be calculated using the formula:

$$\text{Return on Asset} = \frac{\text{net profit after tax}}{\text{total assets}} \times 100\%$$

b. Firm value as the dependent variable is calculated by Tobins-Q:

$$C - PQ = \frac{MV(CS) + BV(PS) + BV(LTD) + BC(INV) + BV(CL) - BV(CA)}{BV(TA)}$$

- C – PQ : Ratio of Q Tobin to model
- MV (CS) : Value of common shares (closing price of shares at the end of the year × number of shares outstanding)
- BV (PS) : Book value of preferred stock
- BV (LTD) : Book value of long-term debt
- BV (INV) : Book value of inventory
- BV (CL) : Book value of current liabilities
- BV (CA) : Book value of current assets
- BV (TA) : Total book value of assets

c. Board of Directors Size

The Board of Directors as an organ of the company is legally responsible for managing the company. The size of the board of directors is measured by using an indicator of the number of members of the board of directors in a company.

d. Company age (AGE)

The age of the company is the length of life or there is an organization or form of business that is engaged in business and has the aim of making a profit or profit. The age of the company can show that the company still exists and is able to compete. By knowing the age of the company, it will also be known how far the company can survive. which can be calculated using the formula:

$$\text{AGE} = \text{Year of observation} - \text{Year of company establishment}$$

3. RESULT

This study uses data on manufacturing companies listed on the Indonesia Stock Exchange during 2016-2020 which can be seen in table 1.

Table 1. Results of Sampling

Criteria	Total
Go public companies listed on the Indonesia Stock Exchange in the 2016-2020 period in the manufacturing sector	182
Manufacturing companies that do not publish consecutive annual financial statements	(33)
Manufacturing companies that do not have complete data according to the research criteria	(74)
Manufacturing companies that are not expressed in rupiah	(29)
Complete data available according to research criteria	46
Number of samples processed 46 x 5 years of research	230
Outlier data (data discarded)	(36)
Final number of research samples	194

Based on the results of the study using the purposive sampling method, the data obtained were 182 manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020. obtained as many as 46 companies that meet the criteria that have been determined in the study during the period 2016-2020. So, the sample obtained is 46 x 5 years or as many as 230 samples. The samples affected by outliers were 36 sample data, so that the number of samples that were eligible for further testing was obtained as many as 194 samples.

a. Multiple linear regression analysis

Multiple linear regression analysis was used to prove the effect of the independent variable on the dependent variable. It can be shown that the summary results of multiple linear regression analysis are shown in table 2.

Table 2. Multiple Linear Regression Analysis

Variable	β	Std. Error	Sig.
Constant	0.740	0.102	-
<i>Return on Asset</i>	- 0.026	0.017	0.126
Company Age	0.009	0.004	0.034

In this study using multiple linear regression equation model, namely, as follows:

$$Q = 0.740 - 0.026ROA + 0.009AGE + e$$

Table 2 shows the constant value for the regression equation is 0.740 with a positive direction indicating that if financial performance as measured by ROA as an independent variable and firm age (AGE) as a control variable is considered constant or has a value of 0 (zero), then the dependent variable, namely firm value as measured by Tobins Q will increase. The regression coefficient of financial performance as measured by ROA is -0.026 with a negative relationship direction. This means that every time there is a change in ROA, the firm value as measured by Tobins Q will decrease with the assumption that the other independent variables are considered constant or have a value of 0 (zero). The regression coefficient of firm age (AGE) is 0.009 with a positive relationship direction. This means that every time there is a change in firm age (AGE) as a controlling variable, the firm value as measured by Tobins Q will increase, thus financial performance as measured by ROA as an independent variable can be controlled by firm age (AGE) in increasing firm value as measured by Tobins Q.

b. Analysis MRA (Moderate Regression Analysis)

Moderated Regression Analysis or interaction test is an application of multiple linear regression, where the equation contains an element of interaction between the independent variable and the moderator variable (multiplying two or more of the independent variable with the moderator variable). The results of the MRA (Moderate Regression Analysis) regression analysis can be shown as in table 3.

Table 3. Analysis MRA (Moderate Regression Analysis)

Variable	β	Std. Error	Sig.
Constant	1.110	0.182	-
<i>Return on Asset</i>	-0.107	0.076	0.163
Interaction ROA*BSIZE	0.014	0.003	0.000

The MRA regression model used in this study is as follows:

$$Q = 1.110 - 0.107ROA + 0.014ROA*BSIZE + e$$

The results of the regression equation show that the constant value for the regression equation is 1.110 with a positive relationship direction indicating that if financial performance is measured by ROA as an independent variable and the interaction between good corporate governance (GCG) which is proxied in BSIZE as a moderating variable with financial performance measured with ROA as the independent variable is considered constant or has a value of 0 (zero), then the value of the company as measured by Tobins Q will increase. The regression coefficient of financial performance as measured by ROA is 0.107 with a negative relationship direction. This can be interpreted that every time there is a change in ROA, the value of the company as measured by Tobins Q will decrease with the assumption that other independent variables and the interaction between good corporate governance (GCG) as proxied in BSIZE and financial performance as measured by ROA are considered constant. or value 0 (zero). The interaction coefficient between ROA and BSIZE is 0.014 with a positive direction. This means that every time there is a change in the interaction between ROA and BSIZE, the firm value as measured by Tobins Q will increase. With financial performance as measured by ROA is considered constant or worth 0 (zero).

c. Classic assumption test

The classical assumption test in this study includes normality, heteroscedasticity, autocorrelation and multicollinearity tests.

Normality test

The normality test of the data results on the multiple regression equation model and moderated regression (MRA) that has been distributed can be seen in Table 4.

Table 4. Normality Test Results

	Equation 1	Equation 2	Information
N	194	194	Normal Distributed Data
K-S Z	1.215	1.071	
<i>Asymp. Sig. (2-tailed)</i>	0.104	0.202	

Based on the results of the normality test in the table above, it shows that the multiple regression model in equation 1, the Kolmogorov-Smirnov value is 1,215 with a significant value or asymp. sig (2-tailed) 0.104 is greater than 0.05 (p-value 0.05). This indicates that the data has been normally distributed, because the significance value is > 0.05. So, it can be concluded that the data is normally distributed. The next stage is the test results with the moderation regression equation (MRA) model on the data that has been distributed. Based on the results of the normality test in the table above, it shows that the moderation regression model (MRA) in equation 2, the Kolmogorov-Smirnov value is 1.071 with a significant value or asymp. sig (2-tailed) 0.202 is greater than 0.05 (p-value 0.05). This indicates that the data has been normally distributed, because the significance value is > 0.05.

Heteroscedasticity Test

This test aims to test whether in the regression model, there is an inequality of variance from the residual value in an observation. The results of the heteroscedasticity test can be seen in Table 5.

Table 5. Heteroscedasticity Test Results

Model	Variablee	Sig.	Information
Equation 1	<i>Return on Asset</i>	0.139	Heteroscedasticity Free
	Company Age	0.571	
Equation 2	<i>Return on Asset</i>	0.746	Heteroscedasticity Free
	Interaction ROA*BSIZE	0.731	

The results of the heteroscedasticity test show that there is no heteroscedasticity disorder that occurs in the process of estimating the parameters of the independent variables and control variables in the multiple regression model in equation 1, where there is no significant value or Sig value. greater than 0.05. It can be concluded that there is no symptom of heteroscedasticity in the multiple regression

equation model. The next heteroscedasticity test was carried out on the moderation regression equation (MRA) model. The results of the heteroscedasticity test show that there is no heteroscedasticity disorder that occurs in the process of estimating the parameters of the independent variable or in the interaction between the independent variable and the moderator variable in the moderating regression model (MRA) in equation 2, where there is no significant value or Sig value. greater than 0.05. It can be concluded that there is no symptom of heteroscedasticity in the moderation regression equation (MRA) model.

Autocorrelation Test

The autocorrelation test was carried out using the Durbin Watson test. The results of the autocorrelation test can be seen in Table 6.

Table 6. Autocorrelation Test Results

Model	Durbin-Watson	Information
Equation 1	1.975	Autocorrelation Free
Equation 2	1.972	

Based on table 6, it can be seen that the value of Durbin Watson (d) in equation 1 is 1.975, where the value of d (1.975) lies between the value $1.5 < d < 2.5$, it can be concluded that the multiple regression model in equation 1 does not occur autocorrelation. The autocorrelation test with the Durbin Watson (d) value in equation 2 is 1,972. From the test results obtained the value of d in accordance with the provisions that the value of $1.5 < d < 2.5$. So it can be concluded that the model does not have autocorrelation, so all models are feasible to be used in hypothesis testing.

Multicollinearity Test

This test is carried out by looking at the tolerance and variance inflation factor (VIF) values from the analysis results. Multicollinearity test from the distributed data results can be seen in Table 7.

Table 7. Multicollinearity Test Results

Model	Variable	Tolerance	VIF	Information
Equation 1	ROA	0.999	1.001	Multicollinearity Free
	AGE	0.999	1.001	
Equation 2	ROA	0.943	1.061	

	BSIZE	0.937	1.067	Multicollinearity Free
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Based on table 7, it can be seen that there is no multicollinearity problem from each independent variable, control variable and interaction between independent variables and moderator variables in equations 1 and 2, because the value of VIF (variance inflation factor) is smaller than 10 and the tolerance value is greater. of 0.1, thus it can be concluded that there is no multicollinearity in each equation.

d. Hypothesis testing

Hypothesis testing in this study was carried out using multiple regression analysis models and MRA (Moderate Regression Analysis) moderation regression analysis models, which were carried out through the coefficient of determination test, t statistical test, and F statistical test.

Coefficient of Determination Test (R²)

The coefficient of determination (R²) test was conducted to show the model's ability to explain the relationship between the independent variable and the dependent variable in the multiple regression analysis model and the relationship between the independent variables with the interaction between the independent variable and the moderator variable in the moderating regression analysis model. The test results can be seen in Table 8.

Table 8. Coefficient of Determination Test Results

Model	R Square	Information
Equation 1	0.290	Variability of 29%
Equation 2	0.338	Variability of 33.8%

Based on the results of the coefficient of determination test in table 8, it shows the value of R Square in equation 1 is 0.290. This means that 29% of the variability of firm value as measured by Tobins Q can be explained by the combination of financial performance as measured by ROA with firm age as a control variable. while the remaining 71% is explained by other factors not included in this research model. The results of the coefficient of determination test show that the R Square value in equation 2 is 0.338, which means that 33.8% of the variability of firm value as measured by Tobins Q can be explained by the combination of the interaction between good corporate governance (GCG) as a proxy for the size of the board of directors and the measured financial performance. with ROA. while the remaining 66.2% is explained by other factors not included in this research model.

Test t (Partial)

The t-statistical test basically shows how far the influence of one independent variable individually on the dependent variable is tested at a significance level of 0.05 in the multiple regression analysis model and the relationship between independent variables with the interaction between the dependent variable and the moderator variable in the moderating regression analysis model. The results of the t-statistical test are presented in Table 9.

Table 9. Statistical Test Results t

Model	Variable	t_{count}	t_{table}	Sig.
Equation 1	ROA	-1.416	1.972	0.163
	ROA*BSIZE	4.697	1.972	0.000

The results of the t-test (partial) in equation 1 for the financial performance variable as measured by ROA obtained t_{count} of 1.416 where the value is smaller than t_{table} of 1.972 with negative parameters. The value of the significant level (p-value) of 0.163 is greater than the significant level of = 0.05, so the first hypothesis which states that financial performance as measured by ROA is rejected. Thus, financial performance as measured by ROA has no significant effect on firm value as measured by Tobins Q. The results of the t-test (partial) in equation 2 for the interaction between good corporate governance (GCG) as proxied in BSIZE and financial performance as measured by ROA obtained t_{count} of 4.697 where the value is greater than t_{table} of 1.972 with positive parameters. The value of the significant level (p-value) of 0.000 is smaller than the significant level of = 0.05, so the second hypothesis which states that the interaction between good corporate governance (GCG) as proxied in BSIZE and financial performance as measured by ROA is accepted. Thus, good corporate governance (GCG) as proxied in BSIZE strengthens the relationship between financial performance as measured by ROA and firm value as measured by Tobins Q.

Test F

The F test is also called the joint or simultaneous significant test which is intended to see and test the overall ability of the independent variable on the dependent variable. Based on the results of the F test, the results are presented in Table 9.

Table 9. F Test Results (Simultaneous)

Model	F _{count}	F _{table}	Sig.
Equation 1	9.465	3.04	0.000
Equation 2	10.910	3.04	0.000

Simultaneous test results in equation 1 obtained that the F_{count} value of 9.465 is greater than the F_{table} value of 3.04 with a significant value of 0.000 less than $= 0.05$ so that it can be concluded that financial performance as measured by ROA has a simultaneous effect on firm value. measured by Tobins Q. Simultaneous test results in equation 2 obtained that the F_{count} value of 10.910 is greater than the F_{table} value of 3.04 with a significant value of 0.000 less than $= 0.05$ so it can be concluded that the interaction between good corporate governance (GCG) which is proxied in BSIZE and Financial performance as measured by ROA has a simultaneous (simultaneous) effect on firm value as measured by Tobins Q.

4. CONCLUSION

From the results of data processing, financial performance as measured by return on assets (ROA) has no effect on firm value as measured by Tobins Q. Furthermore, Good corporate governance (GCG) which is proxied by the number of Board of Directors strengthens the relationship of financial performance as measured by ROA. with firm value as measured by Tobins Q.

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