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(Research Article)

Financial performance moderates the effect of GCG on the firm value

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Abstract

The purpose of this study is to examine and analyze the effect of GCG on firm value and financial performance as moderating variables. In this study, the GCG variable is proxied by managerial ownership. The financial performance variable is proxied by ROA. The object of research used was a mining company listed on the Indonesia Stock Exchange for the period 2019-2021. This study uses a purposive sampling technique in determining the research sample. Obtained 22 companies as research samples in accordance with predetermined sample criteria. The analytical method used is Moderated Regression Analysis (MRA). The results of this GCG study have no significant effect on firm value, financial performance is not able to moderate the relationship between GCG and firm value.

Keywords: GCG; Firm Value; Financial Performance; Mining Company

1. Introduction

There is a crucial approach that can increase firm value, namely Good Corporate Governance. GCG is a key factor from a non-financial perspective because when investing, investors tend to consider this in assessing a company's performance. Corporate governance research has not provided the same solutions and perceptions and analysis results that still provide opportunities for further research development due to differences in results. Companies that hope to compete in the global market must be able to implement good corporate governance. The implementation of GCG is expected to increase the company's profitability.

Investors tend to choose companies with good GCG implementation because it allows for more guaranteed sustainability and company growth. The weak implementation of GCG in Indonesia is one of the reasons this research was conducted. Credit Lyonnais Securities Asia (CLSA) in 2004 Indonesia was ranked 10th or one of the worst in Southeast Asia for the implementation of GCG. In addition, the results of a survey conducted by Standard and Poor's also obtained the same results, namely the implementation and implementation of GCG. in Indonesia is generally stagnant (Suryanto and Refianto, 2019).

The application of proper corporate governance with the principles of company management will have an impact on the perceptions of potential investors to become more confident in making investments so that the demand for company shares increases, therefore the share price, the company's capitalization value also increases which is an indication of an increase in the company's market value (Nuswandari, 2009). An increase in the firm value results in the emergence of agency problems, so it is possible for conflicts to occur between owners and managers, due to the different interests of each. Good corporate governance can be a principal-agency theoretical solution, to avoid conflicts of interest between owners and managers (Retno and Priantinah, 2012).

Financial performance is a continuous reflection of decisions made by management effectively and efficiently and is a benchmark that represents company performance (Kurniawan, 2017). According to Veronika and Kadarusman (2020)

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company performance is something that is obtained by the company, whether it is profit or loss, or also in the form of company work competence in the development of a company. If the company is able to optimize its financial performance, it means that the company is a good company (Sanjaya and Rizky, 2018).

Legitimacy theory is the basis for the impact analysis between the variables studied. This theory legitimizes that Good GCG implementation can reduce agency costs, GCG has a reciprocal relationship to form functions that can increase firm value, financial performance in the long term.

2. Literature review and hypothesis development

2.1. Agency Theory (Agency Theory)

Perceptions that provide an explanation of the contactual relationship that links the agent and the principal. Principals are referred to as parties that show benefits for other parties, while agents are parties who carry out company activities on behalf of principals in their position as decision makers (Jensen and Meckling, 1976). The essence of this theory explains the relationship between agents and principals having different interests so that it can lead to agency conflict (agent conflict). Jensen and Meckling in 1976 provided an explanation that problems can occur due to different interests between investors and managers, this can lead to the presence of agency costs which are monitoring costs (monitoring costs) from the principal, such as agents who charge expenditur bonding fees, diverse interests between principals and agents which cause residual losses, as well as costs for auditing, budgeting, and control systems. Managers are delegated authority from company owners who become shareholders with the aim of analyzing decisions which in practice could potentially lead to conflicts of interest (Retno and Priantinah, 2012).

2.2. Legitimacy Theory

The theory of legitimacy describes the company's way of ensuring that the company's operational activities are still within the limits of the values and norms of society or the environment in which the company was founded. This theory prioritizes the interests of government and society. So that the company's operational activities are required to be in line with the wishes of the community. Purwanto (2011) revealed that with the existence of a theory of corporate legitimacy, it consistently proves that company operations are in sync with the norms and boundaries of the community around the company environment so that the company can be accepted by the community by showing an annual report to explain the form of environmental responsibility.

2.3. Stakeholder Theory Stakeholder Theory)

It is a theory that focuses on the company's relationship with stakeholders, government, investors, society and the environment related to the company's interests. In accordance with what was quoted from Hadi (2011) that external and internal parties have interrelationships that are dependent on one another so that all stakeholders have the authority to obtain information about company operations which makes them influence each other so that companies and stakeholders are interdependent. The existence of the company is really the impact of support from stakeholders to the company (Fadila and Utiyati, 2016).

The research hypothesis based on the research model image is as follows:

- H1: GCG has a significant and positive influence on firm value.
- H2: Significant and positive financial performance moderates the relationship between the influence of GCG on firm value.

3. Material and method

Researchers use quantitative research methods causality design, namely data analysis carried out to analyze the relationship between one variable to another by testing the hypothesis. The data is in the form of a financial summary from the IDX which is the secondary data of this research. Verified mining companies on the IDX are objects taken by researchers.

As for in this study, the population used was 48 companies and 22 companies were obtained as samples. For the sampling technique using the purposive sampling method, the criteria aspects are:

- All companies in the mining sector are listed on the IDX in 2019-2021 where they publish annual reports

during the year of observation.

- Companies yesng have ownership managerial during yearobservations 2019-2021.

MRA (Moderated Regression Analysis) is used as the analytical method. MRA is defined as a part of linear multiple regression where in the regression equation there is a multiplication of two or more independent variables (interaction elements). This method adds the multiplication variable between the independent variables and the moderating variable, so that the equation is: $Y = \alpha + \beta 1 X1 + \beta 1 X1^* Z + \varepsilon$ where Y is firm value, X1 GCG is proxied by managerial ownership, X1*Z multiplied between managerial ownership and financial performance proxied by ROA. And this analysis data is processed using the Statistical Package for Social Sciences (SPSS) software.

4. Results and discussion

4.1. Regression Analysis

The method of multiple linear regression analysis and the MRA model were used by the researchers. The results of regression calculations using SPSS are described in table 1.

Table 1 Multiple Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	std. Error	Betas	t	Sig.
(Constant)	7.787	2.570		3.030	0.004
Managerial ownership	2.463	4.104	0.073	0.600	0.551

Secondary Data, 2023

4.2. The Influence of GCG Proxied by Managerial Ownership on Firm Value

Table 1 shows the results of the tcount value of the GCG independent variable which is proxied by managerial ownership (X1) of 0.600 and a ttable value of 1.998 so tcount < ttable, a significant value of 0.551 is greater than 0.05 (0.551> 0.05). The results of this study prove that the GCG variable which is proxied by managerial ownership does not affect firm value. So the conclusion is H1 is rejected.

Based on the results of hypothesis testing, it was found that GCG proxied by managerial ownership had no effect on firm value. Mangantar and Sumanti (2015) say that this shows that management does not share in the company because the shares owned by management are low, causing not all profits to be owned by management so that they are more concerned with personal matters than concerned with the company. Low management share ownership can also make management work not as optimal as possible so that performance is low and unable to influence the firm value. So, it can be said that management ownership is not appropriate to be used as a system in obtaining maximum firm value. Prastuti and Budiasih (2015) also revealed the same thing, according to them the firm value is not affected by managerial ownership. In accordance with agency theory which states that if this managerial ownership is low, it will increase the chances of manager opportunistic behavior that has an impact on agency conflict (Nurkhin et al., 2017). Whereas Ramadhani et al., (2017) and Susanto and Subekti (2012) had different results, they stated otherwise that firm value was influenced by managerial ownership.

Table 2 MRA test results

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	std. Error	Betas	t	Sig.
(Constant)	6.685	1.809		3.696	0.000
Managerial ownership	-0.314	2.924	-0.009	-0.107	0.915
MO*ROA	-0.177	0.241	-0.086	-0.735	0.466

Secondary Data, 2023

4.3. Effect of Financial Performance Proxied by Return on Assets (ROA) as a Moderating Variable in GCG Relationships Proxied by Managerial Ownership on Firm Value

Furthermore, in Table 2, the MRA test proves the tcount value is -0.735 and the ttable value is 1.999, the significant value is 0.466, which means that the tcount ≤ ttable value and a significant value is greater than 0.05. It can be concluded that the GCG variable proxied by managerial ownership is not moderated by financial performance. significant effect. It means that financial performance is not a moderating variable, so it can be concluded that H_3 is rejected.

Based on the results of hypothesis testing, it was found that financial performance proxied by return on assets (ROA) could not moderate the GCG relationship proxied by managerial ownership to firm value. Decreasing or increasing profit/profit in the company cannot affect the amount of managerial ownership. In other words, management decisions in investing are not only based on high financial performance in a number of companies in a certain period. So that the company's financial performance has not been able to become a moderating variable in the relationship between managerial ownership and firm value. Management still has the thought that the profits or profits obtained from the company will be enjoyed by the shareholders.

Agency conflicts arise because of this, managers act according to their wishes to gain profits and are not in line with the principal. This conflict will provide agency rates and provide the probability of a monitoring system, then the high agency rates obtained are not accompanied by good financial performance, this has not been able to provide maximum firm value. Meanwhile, Ramadhani et al., (2017) gave a statement that was reversed from the previous statement, namely profitability moderating managerial ownership on firm value.

5. Conclusion

The results of the study show that GCG as a proxy for managerial ownership has no effect on firm value. The financial performance proxied by ROA is not able to moderate the relationship between GCG which is proxied by managerial ownership of firm value. Contribution for investors is to provide views for investors to consider non-financial aspects in making investment decisions.

The limitations of this study are:

- The research period was carried out over a period of 3 years which could be added in further research,
- The research only used 2 independent variables, namely gcg which was proxied by managerial ownership and one moderating variable, namely financial performance.

So further research is expected to add independent variables such as capital structure or by adding proxies for GCG variables such as board size, institutional ownership, independent commissioners and variables that are thought to be able to influence firm value.

Compliance with ethical standards

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All authors contributed positively to the writing of this manuscript and there no conflict of interest as agreed to the content of this research.

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