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Good Corporate Governance, Corporate Value and Financial Performance of Jakarta Islamic Index Group Companies on Indonesia Stock Exchange

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Abstract

This study aimed to determine the effect of Good Corporate Governance (GCG) on firm value with Financial Performance (FP) as an intervening variable. This research is a type of quantitative research using secondary data. The population in this study was 48 companies listed on the Jakarta Islamic Index in 2015-2019. The sampling technique used the purposive sampling method, so the samples obtained were 8 companies multiplied by 5 years, namely 40 observation samples. This research is a data processing tool using IBM SPSS Statistics version 25 using descriptive statistics, classical assumption test, hypothesis testing, and path analysis. The results of this study are institutional ownership effect on firm value, managerial ownership has no effect on firm value, institutional ownership has an effect on FP, managerial ownership has no effect on FP, FP has an effect on firm value, institutional ownership has no effect on firm value with FP as an intervening variable, Managerial ownership has no effect on firm value with FP as the intervening variable.

Keywords: Good Corporate Governance, Corporate Value and Financial Performance.

1. Introduction

Following the development of technology and globalization, the Islamic Economy in Indonesia is currently very developed. This can lead to various business competitions. This level of competition can make business actors to further improve the quality of their company. Therefore, the quality of the company getting better, it will make the company attractive to investors. This is one of the consequences of the rapid growth of the Islamic Economy in Indonesia. That way, Islamic stocks are growing. The increasing number of investors who will invest their money into a company is one of the consequences of the growing stock in Indonesia. Companies that have good quality, will bring investors to invest in their company shares. There are various ways for investors to see the quality of shares owned by the company. First, analysis of the company's financial statements. In addition to financial statement analysis, there is also another way to see the quality of shares of a company, namely by looking at the value of the company. Company value is the level of success of a company that is associated with the value of the stock price of investors. (Rohali et al., 2021)

Companies need to increase company value as one of the main goals of the company. One way to increase company value, namely with corporate governance commonly referred to as using GCG (Ma'auyah &; Tjahjani. Fera, 2021). The implementation of GCG is now part of a company's business strategy. The application can affect the assessment of investors on the development of a company (Sagala &; Ginting, 2021).

In addition, to see the development of a company, it can be seen by looking at the company's FP. FP is one measure of the company's achievement which describes how the level of profit the company gets. Companies with good FP will generate maximum profits, so they have a very high level of return on investment. FP is important because it can be a reference to see the development of the achievements of a company in each period, determine investment that can increase production power in the company, and become the basis for company planning in the future (Sari et al., 2020) (Ma'auyah &; Tjahjani. Fera, 2021).

This study refers to the research that distinguishes the variables used, namely, the (Ma'auyah &; Tjahjani. Fera, 2021) independent variables used are intellectual capital and GCG. While the dependent variable used is the value of the company. And for intervening variables that are used in FP in Islamic banking companies at OJK for the 2015-2019 period. However, in this study, researchers used the independent variable used was GCG. While the dependent variable used is the value of the company. And for the intervening variable used is the FP of companies listed in the Jakarta Islamic Index in 2015-2019.

2. Literature Review

Signaling Theory is when company management takes action in looking at the company's prospects for the purpose of providing information to investors. Agency theory is a concept popularized by Jensen and Meckling (1976). This theory explains that the agent is the party entrusted by the principal to operate the company. While the principal itself is a party entrusted by the agent, which acts as the (Brigham & Houston, 2014) (Eko Sudarmanto, et al., 2021) name of the principal (agent).

Company value

Firm value is a condition achieved by a business as an illustration of the public's trust as consumers in the company's performance and products. So that it can be said that company value is an investor's assessment in seeing the success rate of management and management of resources and its relationship with the company's stock price itself. And when a company's value is high, the market becomes confident in the company's future performance as well as future opportunities (Sagala &; Ginting, 2021). In addition, company value is also a condition that has been achieved by the company through a process of activities where to build public trust in the company. By the perception and trust of the company, investors can buy shares of the company at a mutually agreed price. Increasing the value of the company is an achievement that is by the dreams of investors so that investor welfare also increases (Hasan & Point, 2020). Each company uses the market ratio with the formula Price to Book Value. Price to Book Value measures the relationship between a stock's market price and book value per share. Price to Book Value is quite significant in predicting future stock returns. The formula for calculating the (Sihombing, 2018) Price to Book Value is as follows:

$$PBV = \frac{Market\ price\ per\ share}{Book\ value\ per\ share}$$

Good Corporate Governance (GCG)

Good Corporate Governance are the principles implemented by the company to maximize corporate value, improve company performance and contribution, and maintain corporate sustainability in the long term. Meanwhile, according to the Financial and Development Supervisory Agency, corporate governance is a system of control and regulation in terms of the relationship mechanism between the parts that control the company, or in terms of the values listed in the management mechanism. The welfare of shareholders can be achieved by the way the company must be able to be fair to shareholders. Justice is one of the values that is upheld and expected anytime, anywhere for mankind (Allimudin, 2011 in Dadan, Atichasari, Mulatsih, &; Muh, 2019). GCG is proxied as follows:

1. Institutional Ownership

The indicator is used in measuring institutional ownership, which is the percentage of total shares owned by the institution from the total share capital of outstanding companies. (Patmawati, 2017)

$$Institutional\ Ownership = \frac{Number\ of\ Institutional\ Shares}{Number\ of\ shares\ outstanding}\ X\ 100\%$$

2. Managerial Ownership

The indicator is used in measuring managerial ownership, namely the percentage of total shares owned by management from the company's outstanding share capital (Patmawati, 2017).

$$Managerial\ Ownership = \frac{Number\ of\ Management\ Shares}{Number\ of\ outstanding\ shares}\ X\ 100\%$$

Financial performance (FP)

Sharia PSAK 2016 No 101 states that financial statements are a presentation of the financial condition and FP of Sharia entities. The purpose of financial statements is to provide information on the financial condition, performance, and cash flow of Islamic entities for decision-making. Financial statements also show management's responsibilities regarding the use of resources (Indonesian Accounting Association, 2017). FP measures a company's performance in terms of generating profits as well as market value. Measurement of FP is very important to determine the financial capabilities and weaknesses of a company. (Sagala &; Ginting, 2021). The FP uses profitability ratios using Return on Assets. Return on Assets for companies measures the ability to generate net income based on a certain level of assets. High Return on Assets shows the efficiency and effectiveness of better asset management (Sihombing, 2018). Return on assets (ROA) is a profitability ratio that can measure a company's ability to generate profits from the assets used. ROA can measure a company's ability to generate profits in the past to be projected in the future (Yolanda et al, 2020). The calculation formula for Return on Assets is as follows:

$$ROA = \frac{Net\ Income}{Total\ Activa} X\ 100\%$$

Good Corporate Governance (GCG) to Corporate Value

The implementation of GCG plays an important role in increasing welfare and optimizing the wealth of shareholders, by increasing the value of the company (Hamdani, 2016). The results of the research that have been conducted are good (Neliana &; Destiana, 2021) corporate governance has a positive and significant effect on company value. Meanwhile, in contrast to the results of good (Rohali et al., 2021) corporate governance research, it has a negative and insignificant effect on company value. From the description described above, the author takes the following hypothesis:

H1: GCG proxied by institutional ownership affects the value of the company.

H2: GCG proxied by managerial ownership affects the value of the company.

Good Corporate Governance (GCG) on Financial Performance (FP)

Good governance in a company can reflect management in managing an asset, capital properly and correctly to attract investors. (Rohali, Maimunah, Fadillah, &; Sugiyanto, 2021) The results of research that has been conducted Good (Sari et al., 2020) corporate governance research affects FP. Meanwhile, in contrast to the results of (Rahmasari &; Trisnaningsih, 2021) GCG research, it does not influence FP. From the description described above, the author takes the following hypothesis:

H3: GCG proxied by institutional ownership affects FP.

H4: GCG proxied by managerial ownership affects FP.

Financial Performance (FP) Against Company Value

FP is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Aims to obtain financial statement information regarding the flow of funds, use of funds, efficiency, and effectiveness. Good company FP is able to maximize the yield in profits, to have a high return on investment field field field (Sari, Titisari, &; Siti, 2020). The better the FP for an investor, the better the return obtained by the company (Rahmasari &; Trisnaningsih, 2021). The results of research that have been carried out FP have a positive and significant effect on the value of the company. Meanwhile, in contrast to the results of the company's performance research, which is proxied, has a negative and insignificant effect on company value. (Neliana &; Destiana, 2021) (Rohali et al., 2021) From the description described above, the author takes the following hypothesis:

H5: FP affects the value of the company.

Financial Performance (FP), Good Corporate Governance (GCG), Against Corporate Value

FP is a picture of a company's financial condition in a certain period regarding aspects of raising funds and channeling funds, which are usually measured by indicators of capital adequacy, liquidity and profitability. (Santoso, 2017) FP research can mediate the relationship between (Ma'auyah &; Tjahjani. Fera, 2021) GCG and Company Value. Meanwhile, in contrast to the results of research, company performance is not able to mediate the relationship between (Rohali et al., 2021) GCG and Company Value. From the description described above, the author takes the following hypothesis:

H6: FP can mediate GCG proxied by institutional ownership affecting company value.

H7: FP can mediate GCG proxied by managerial ownership affecting company value.

3. Methodology

Sampling in this study was through purposive sampling, involving 8 companies from companies listed in the Jakarta Islamic Index (JII) group on the Indonesia Stock Exchange for 5 years. Companies that become samples must meet the following requirements: (1) The selected sample is a company listed in the Jakarta Islamic Index from 2015 to 2019; (2) Companies selected as samples are companies that have never been out of the Jakarta Islamic Index list from 2015 to 2019; (3) The Company has complete data on the variables used in the study, namely institutional ownership, managerial ownership, Price to Book Value, and Return on Assets.

The research method uses secondary data from the Indonesia Stock Exchange and analyzes it using the analysis path. Path analysis is a development of Multiple Regression, so that it can be estimated the magnitude of the causal relationship between a number of variables and the hierarchical position of each variable in a series of paths of causal relationships, both direct and indirect relationships. The quantitative data analysis technique in this study used SPSS version 25 and produced the following analysis path model:

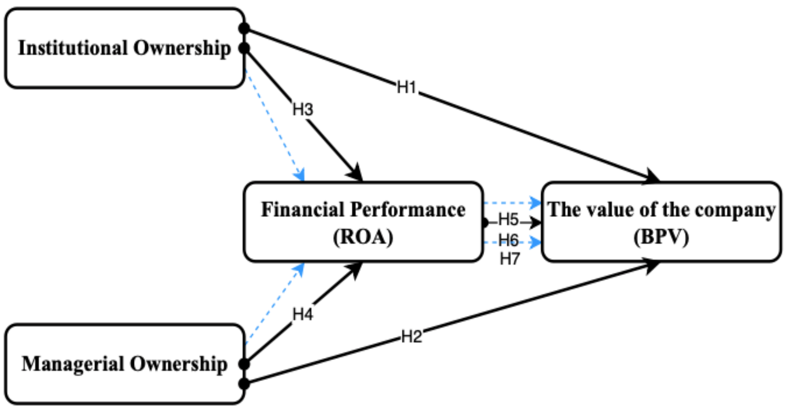

Figure 1. Frame of Mind

Information:

= Influence through intervening variables = Direct influence

Data analysis techniques through statistical descriptive stages, Classical Assumption Test (Normality Test, Multicollinearity Test, Heteroskedasticity Test and Autocorrelation Test) and Hypothesis Test.

4. Results and Discussion

Descriptive Statistics

Table 1. Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Company Value	40	0.34	82.44	8.8478	19.25547
Institutional Ownership	40	43.91121	84.99184	58.7602560	11.88098238
Managerial Ownership	40	0.00001	13.32845	1.6962435	4.22544687
Financial Performance	40	1.86	46.66	10.7425	11.38051
Valid N (listwise)	40				

Source: Data analyzed by author, using SPSS 25 (2022)

Based on table 1 above, descriptive statistics can be described of company value variables: value is 0,34, maximum value is 82,44, mean value is 8,8478 and std. deviation is 19,25547. The variation of the data used is high which is depicted by a standard deviation value greater than the mean value.

Descriptive statistics on the variables of GCG proxied by institutional ownership have a minimum value of 43,91121, a maximum value of 84,99184, a mean of 58,7602560 and a td. deviation of 11,88098238. Based on the comparison between the mean and standard deviation there is a mean value greater than standard deviation and this explains that the variation of the data used is low.

The descriptive statistical results of managerial ownership have a minimum value of 0,00001, a maximum value of 13,32845, a mean value of 1,6962435 and a value of std. deviation of 4,22544687. The mean value is lower than the standard deviation, this explains that the variation in the data used is high.

The descriptive statistical results on FP variables have a minimum value of 1.86, a maximum value of 46,66, a mean value of 10,7425 and a std. deviation of 11,38051. The mean value and std deviation describe the low variation of the data used. While the classical assumption test results for the Normality, Heteroscedasticity, Multicollinearity and Autocorrelation tests are not problematic.

The results of partial hypothesis testing of the model formed in the methodology above are model I can be seen in table 2 below:

Table 2. Model 1 t Test Results

Coefficients[a]						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-42.994	6.040		-7.118	.000

	Institutional Ownership	.895	.097	.934	9.195	.000
	Managerial Ownership	.681	.274	.253	2.490	.017
a. Dependent Variable: Financial performance						

Source: Data analyzed by author, using SPSS 25 (2022)

From the results of the data processing above t calculate variable Institutional Ownership > t table is 9,195 > 1,68709 with a significant value of 0,000 < 0,05, it can be concluded that the variable of GCG proxied by Institutional Ownership has a significant positive influence on FP before H3 is accepted. The results of the study stated that the existence of institutional ownership is able to carry out effective supervision and monitoring, carried out in order to prevent fraud committed by management that prioritizes its interests over the needs of shareholders. So that institutional ownership in this study is one aspect that will affect the success of the company's FP. So, this study supports the results of (Santoso, 2017) GCG research proxied by Institutional Ownership has a significant positive effect on FP.

From the results of the data processing above t calculate from managerial ownership > I table is 2,490 > 1,68709 with a significant value of 0,017 < 0,05, it can be concluded that the variable of managerial ownership affects FP so that H4 is accepted. This result is based on agency theory, which states that shareholding owned by management is able to minimize agency conflicts and can generalize the interests of managers and shareholders. This result is due to the company has paid attention to the implementation of GCG well. Management activation will result in management performance above standard, so that it can affect the company's FP. So that this study is contrary to the results of (Rahmasari &; Trisnaningsih, 2021) GCG research which is proxied by managerial ownership has no influence on FP. The Partial Test model II is illustrated in table 3 below:

Table 3. Model 2 t Test Results

Coefficients[a]						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-42.307	11.511		-3.675	.001
	Institutional Ownership	.667	.218	.412	3.056	.004
	Managerial Ownership	.673	.366	.148	1.837	.074
	Financial performance	1.005	.204	.594	4.939	.000
a. Dependent Variable: Company value						

Source: Data analyzed by author, using SPSS 25 (2022)

From the results of the data processing above, t calculates the variable Institutional Ownership 3,056 > t table 1,68830 with a significant value of 0,004 < 0.05. From this analysis, institutional ownership has a significant positive influence on company value so that H1 is accepted. The results of this study state that the existence of institutional ownership is able to optimize and supervise management performance. This is in accordance with agency theory that institutional ownership in this study can reduce the possibility of agency conflicts within company. The results of this study are supported by the results of research (Neliana &; Destiana, 2021) that institutional ownership has a positive and significant effect on company value.

t calculates the managerial ownership variable 1,837 > t table 1,68830 with a significant value of 0,074 > 0,05 and it can be concluded that the managerial ownership variable has no effect on the value of the company so H2 is rejected. This result is based on the theory of agency shareholding owned by management is notable to minimize the occurrence of agency conflicts, and cannot generalize the interests of managers and the interests of shareholders. So that the results of this study are supported by research (Royani et al., 2020) that states managerial ownership has no effect on company value.

FP has a calculated t value of 4,939 > t table 1,68830 with a significant value of 0,000 < 0,05 and it can be concluded that the FP variable has a positive and significant influence on the company's value so that H5 is accepted. The results of the study provide a signal to shareholders about the good condition of the company. The signals provided are in the form of financial statements that are useful for every decision-making of the company and can convey the value of the company to shareholders which serves as a signal. So that this study supports the results of research (Neliana &; Destiana, 2021), FP has a positive and significant effect on company value.

The results of the path analysis shows that the direct influence is 0,412, while the indirect influence is 0,934 x 0,148 = 0,1382. The combined direct and indirect effect of 0,412 + (0,934 x 0,148) = 0,5502. So that the value of the direct effect is greater than the indirect effect 0,412 > 0,1382. Based on the results of the analysis, it can be concluded that FP cannot mediate GCG proxied by institutional ownership against company value so H6 is rejected. The results of the study stated that a large percentage of institutional ownership has not been able to carry out supervision and monitoring competently and efficiently and is unable to inspire managers to improve their performance. Therefore, good FP is not achieved and high company value is not achieved. So that the research supports the results (Santoso, 2017) GCG research proxied by institutional ownership has no effect on company value with FP as an intervening variable.

The results of the path analysis show that the direct influence is 0.148, while the indirect influence is 0,253 x 0,148 = 0,0374. Total combined direct and indirect influences of 0,412 + (0,253 x 0,148) = 0,1574. So, the value of the direct effect is greater than the indirect effect 0,148 > 0,0374. Based on this analysis, it can be concluded that FP cannot mediate GCG proxied by Managerial Ownership against company value so H7 is rejected. The results of this study show that the large percentage of managerial ownership in the company has not been able to generalize the interests of company management with shareholders and other company owners. So that this study supports the results of (Royani et al., 2020) GCG research proxied by Managerial Ownership has no effect on company value with FP as an intervening variable.

5. Conclusion

Based on the test results and discussion described above, several important points can be concluded. First, GCG proxied by constitutional ownership has a significant positive effect on the value of the company. Second, GCG proxied by institutional ownership has no effect on the value of the company. Third, GCG proxied by institutional ownership has a significant positive effect on FP. Fourth, GCG proxied by managerial ownership has no effect on FP. Fifth, FP has a significant positive effect on the value of the company. Sixth, FP cannot mediate the governance proxied by institutional ownership of the company. Seventh, FP cannot mediate the governance proxied by managerial ownership of the value of the company.

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