THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

The Effect of Good Corporate Governance on Firm Value

I G.A. Desy Arlita
Lecturer, Department of Economics and Business,
Universitas Pendidikan Nasional, Indonesia
Gusti Ayu Aghivirwiati
Lecturer, Department of Digital Business Program,
Institut Teknologi Dan Bisnis STIKOM Bali, Indonesia

Abstract:
Theory of firm implies that shareholder wealth should continue to increase over time to the maximum However, the opposite can happen if we refer to agency theory. Based on agency theory, management will maximize its own wealth so that management will choose the use of principles and assumptions in accounting that suit their interests. Good corporate governance can be a way to protect the interests of shareholders as owners of the company. This study was conducted to re-examine the effect of good corporate governance on firm value by using purposive sampling method for companies that were ranked as the most trusted and trusted companies during 2017-2019. A total of 16 companies were observed for 3 years. The results of this study found that good corporate governance has no significant effect on firm value. This may occur because the intended external stakeholders in the capital market do not utilize information regarding good corporate governance as the main consideration in making short-term investment-related decisions.

Keywords: *Firm's value, theory of firm, agency theory, good corporate governance*

1. Introduction

Based on the theory of firm, the main purpose of a company is established is to maximize the wealth or value of the company [1]. In line with the theory of firm, [2] also states that the main goal of each company is to maximize the value of shareholders or owners, achieve profitability through business activities, by producing and / or selling goods or services to consumers. The company's goal to maximize shareholder wealth can be achieved through increasing the value of the company [3].

Changes in perception of corporate obligations have shifted since the advent of the stakeholder theory [4]. The approach to stakeholder theory states that the company must not only benefit the company, but also for Based on the theory of firm, the goal of establishing a company is to maximize shareholder wealth. Based on this, the management of the company should prioritize the welfare of the shareholders in every decision made and in the company's operations.

Theory of firm implies that shareholder wealth should continue to increase over time to the maximum. The increase in shareholder wealth can be seen from the increase in company value. [1] states that firm value is the market value of the company's outstanding debt and equity. The value of a company can also be an investor's perception of the company's success rate and is often linked to the stock price. The increase in share price affects the value of the company to develop prosperity for shareholders when the price rises [2].

However, the opposite can happen if we refer to agency theory [3]. Based on agency theory, management will maximize its own wealth so that management will choose the use of principles and assumptions in accounting that suit their interests [4].

Agency problems are problems that arise as a result of the separation between shareholders as owners of the company and management as company managers. This difference gives rise to information asymmetry, where management will have more information than the owner of the company and can use the information for personal gain. As a result, we need a tool that can be used to protect the rights of shareholders as owners of the company.

Good corporate governance can be a way to protect the interests of shareholders as owners of the company [5]. The role and demands of investors for the application of the principles of corporate governance are factors that are considered in making decisions to invest in a company. So that the existence of good corporate governance can attract investors so that the company value which can be reflected in the company's stock price can increase.

Research [6] proves that an increase in good corporate governance mechanisms raises investor confidence so that it can increase firm value. The same thing is also expressed in research [5], good corporate governance is proxied by the board of directors, independent commissioners, and institutional ownership has an influence on stock prices. However, different results were found by [7] who found that GCG did not have a significant effect on firm value as measured by Tobin's Q.

With the different research results, a research was conducted on the effect of good corporate governance on firm value. This study will use a different proxy with previous studies that have been mentioned. In this study, good corporate governance will be measured using corporate governance perception index (CGPI). The ranking of this index is carried out by The Indonesian Institute for Corporate Governance (IICG) which is conducted annually. CGPI is a research program and ranking of GCG implementation in companies in Indonesia through research design. Research will be carried out on companies that are rated as most trusted and trusted in the CGPI award.

2. Literature Review

2.1. Theory of the Firm

Theory of the firm or firm theory is a branch of management that pays attention to and focuses on the nature of the corporation, rather than the nature of the market which combines views of psychology, sociology, and game theory. The company exists in the midst of society because of its benefit in the process of distributing goods and services which are difficult for individuals to carry out separately. In the long run, their existence is not only beneficial for the owners / shareholders, but will also bring benefits to the wider community and the government through a process called the flow of economic activity (The Circular Flow of Economic Activity). Firm theory is the basic concept used in most managerial economics studies. [8]

2.2. Agency Theory

Agency theory predicts and explains the behavior of those involved with the company. In law, an agent is someone who is hired to represent the interests of others. An agency relationship is a contract between two or more people, between the principal and another person called the agent, so that the agent acts on behalf of the pronsipal which includes the delegation of some authority in decision making [3].

2.3. Firm's Value

Firm's value is very important because high company value will be followed by high prosperity for shareholders [9]. Firm value can be measured by a ratio called the valuation ratio. Valuation ratio is a ratio to measure the company's ability to create value to society (investors) or shareholders [10]. One of the appraisal ratios that can be used to measure firm value is Price to Book Value (PBV). Price to Book Value (PBV) describes how much the market appreciates the book value of a company's shares. The higher the PBV means that the market trusts the prospects of the company. Price to book value also shows how far a company is able to create company value relative to the amount of invested capital.

2.4. Good Corporate Governance

Corporate governance refers to the structure and process of corporate direction and control [11]. Corporate governance deals with the relationship between management, the board of directors, controlling shareholders, minority shareholders and other stakeholders. Corporate governance is a process and structure used by company organs, whether directors, managers, shareholders, and parties related to company development in certain environments, to increase business success and company accountability in order to increase shareholder value in the long term while still paying attention to other stakeholders based on statutory regulations and ethical values [12].

2.5. Hypothesis

Based on the theory of firm, the goal of establishing a company is to maximize shareholder wealth. The increase in shareholder wealth can be seen from the increase in company value. Management as an agent has a responsibility to optimize shareholder profits. Managers as company managers have more information than shareholders as owners of the company, resulting in an imbalance in information ownership.

This imbalance will cause information asymmetry. The existence of information asymmetry will encourage managers to present untrue information, especially if the information is related to the manager's performance measurement so that a mechanism is needed to protect shareholders.

Good corporate governance can be a way to protect the interests of shareholders as owners of the company [5]. The role and demands of investors for the application of the principles of corporate governance are factors that are considered in making decisions to invest in a company.

Research [6] proves that an increase in good corporate governance mechanisms raises investor confidence so that it can increase firm value. The same thing is also expressed in research [5], good corporate governance is proxied by the board of directors, independent commissioners, and institutional ownership has an influence on stock prices. However, different results were found by [7] who found that GCG did not have a significant effect on firm value as measured by Tobin's Q. Based on this, the hypothesis was formulated:

- H: Good Corporate Governance has a significant positive effect on firm value

3. Research Methods

The study was conducted on public companies on the Indonesia Stock Exchange (IDX) using purposive sampling technique. Samples were taken with the following criteria: Have been rated Very trusted and trusted in the CGPI Award by IICG during 2017, 2018, or 2019.

Firm value as the dependent variable is measured using price to book value (PBV) with the formula:

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

Good corporate governance is measured based on the rankings obtained from 2017 to 2019. If a company is ranked as Indonesia Most Trusted Companies, it is given a score of 2, if it is ranked as Indonesia Trusted Companies, it will be given a score of 1, and a score of 0 if it is not ranked.

4. Result and Discussion

The study was conducted on 16 companies during 2017, 2018, and 2019 so that 48 data were collected with the following statistical descriptive results::

	N	Minimum	Maximum	Mean	Std. Deviation
FV	48	.00	2.00	1.2083	.87418
GCG	48	.21	4.45	1.7167	1.10406
Valid N (listwise)	48				

Table 1: Descriptive Statistics

From the data, it is known that the average company has a high value because the value of the company has an average value of more than 1.
The results of the equation regression can be seen in Table 2 below.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.278	.237		5.389	.000
	GCG	-.041	.117	-.052	-.350	.728

Table 2: Coefficientsa
a. Dependent Variable: FV

Based on table 2, the effect of good corporate governance on firm value has a significance value of 0.728. a value greater than 0.05 indicates that good corporate governance does not have a significant effect on firm value.

The results of this study are in line with research [7] which found that GCG does not have a significant effect on firm value as measured by Tobin's Q. Even though using different measurements, the relationship between the two variables is still insignificant.

The insignificant effect of GCG on firm value can occur due to changes in firm value that are strongly influenced by changes in stock prices, while GCG is not a factor that can change the level of stock prices [7]. Another thing that justifies this finding is that the level of firm value is not determined by good corporate governance, where external stakeholders in the capital market do not use information regarding good corporate governance as the main consideration in making short-term investment-related decisions [13]. Research [14] also found that Good Corporate Governance, which is proxied by using managerial ownership and institutional ownership, as well as Corporate Social Responsibility, has no effect on firm value.

5 Conclusions and Limitations

The results of this study found that good corporate governance has no significant effect on firm value. This may occur because the intended external stakeholders in the capital market do not utilize information regarding good corporate governance as the main consideration in making short-term investment-related decisions.

This research is limited to companies that have been ranked as Indonesia Most Trusted and Indonesia Trusted Companies whose shares are sold on the Indonesian stock exchange so that the research sample is very limited. For further research, it can be done by adding the number of observations or different proxies to measure good corporate governance..

6. References

i. Keown, et al. (2005). ‘Dasar-dara Manajemen Keuangan’ Edisi Revisi. Raja GrafindoPersada: Jakarta
ii. Hasanah dan Lekok. (2019). Faktor-Faktor Yang Mempengaruhi Nilai Perusahaan. JurnalBisnis Dan Akuntansi. Vol. 21(2): 165-178
iii. Jensen, M, J., Meckling, W, H. 1976. Theory of Firm: Managerial Behaviour, Agency Cost and Ownership Structure. Journal of Financial Economic, 3(4): 305-360.
iv. Fathiyah, Mufidah. (2020). The Effect of Corporate Governance and Corporate Culture on Firm Market Value to Improve Financial Performance. *Dinasti International Journal of Digital Business Management.* Vol.1 (6): 930-940.
v. Nafisadkk, (2020). Pengaruh Good Corporate Governance dan Kinerja KeuanganTerhadap Harga Saham Perusahaan SektorMakanan dan Minuman yang Terdaftar di Bursa Efek Indonesia (BEI) Tahun 2011-2018. Coopetition: JurnalIlmiahManajemen. Vol X1 No 2.
vi. Utami, D.H.P., Muslih, M. (2018).’ Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan Dengan

Kinerja KeuanganSebagaiVariabelModerasi (StudiKasus pada Perusahaan Sub SektorAsuransi yang Terdaftar di Bursa Efek Indonesia Periode 2013-2016). *Jurnal AKRAB JUARA*. Vol. 3(3): 111-125

vii. Negara, I.K. (2019). AnalisisPengaruh Good Corporate Governance Terhadap Nilai Perusahaan Dengan Corporate Social Responsibility SebagaiVariabelPemoderasi. Jurnal Magister Manajemen Universitas Mataram. Vol 8(1): 46-62.

viii. Setiono. (2015) Teori Perusahaan / Theory Of The Firm : Kajian TentangTeoriBagi Hasil Perusahaan (Profit And Loss Sharing) DalamPerspektifEkonomi Syariah. JurnalAplikasiPelayaran dan Kepelabuhanan, Vol.5 (2)

ix. Brigham And Houston (2006). Dasar-Dasar ManajemenKeuangan. Buku 1 Edisi 8. Jakarta: SalembaEmpat.

x. Sutrisno. 2012. ManajemenKeuanganTeoriKonsep dan Aplikasi. Yogyakarta :Ekonisia.

xi. (The World Bank. (2005). World Development Report 2006: Equity and Development / World Bank. Vol. 28. Washington, D.C: Oxford University Press.)

xii. Sutedi, Adrian. 2011. Good Corporate Governance. EdisiPertama. Jakarta: SinarGrafika.

xiii. Rustendi, T. (2018). Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan (Studi Pada Bumn Di Bursa Efek Indonesia). JurnalAkuntansi. Vol.13(2): 49-58

xiv. Fajari dan Isynuwardhana. (2019). Pengaruh Good Corporate Governance Dan Corporate Social Responsibility Terhadap Nilai Perusahaan (Studi Pada Perusahaan Sektor Industri Barang Dan Konsumsi Yang Terdaftar Di Bursa Efek Indonesia Tahun 2014-2017). Jurnal AKSARA PUBLIC. Vol 3(3):89-100