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The effect of good corporate governance on firm value with financial performance as a moderator

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ABSTRACT

The purpose of establishing a company is to provide welfare for shareholders. However, this welfare can be hampered by a conflict of interest between the agent and the owner of the company. This study aims to prove the effect of good corporate governance as a proxy for audit committees and independent commissioners on firm value with financial performance as a moderator. This research method uses multiple regression analysis with the moderated regression analysis (MRA) approach and helped by SPSS 25 software. In direct testing it shows that the audit committee has no effect on firm value, the independent board of commissioners has a positive effect on firm value. In testing the moderating variable, financial performance has a positive effect on the relationship between the independent board of commissioners and firm value. With the limited resources of the writer, it becomes a suggestion to be able to expand proxies for good corporate governance variables.

Keywords: Firm Value, Good Corporate Governance, Audit Committee, Independent Board of Commissioners, Financial Performance.

JEL Classification: G32, G34 *

INTRODUCTION

Firm value is interpreted as the market value formed by investors in a company. Ibrahim (2020) in Fatma and Chouaibi (2021) reveals that firm value represented as share value reflects shareholder prosperity. Increasing the performance of share values will further increase the wealth of shareholders, which is the main goal of the company's establishment, namely to provide welfare for shareholders. Investors in companies with good fundamentals will seek their influence to maintain the performance of the companies they invest in so that they continue to perform well so that it will lure potential investors to invest in the company.

The Wall Street Crash in 1929 became a period for the birth of corporate governance as a solution to agency problems which were the events of the collapse of companies in the United States (Berle and Means, 1932 in Marini and Marina, 2017). Indonesia is one of the countries with an unfavorable record of fraud in corporate organs, both private and government. Based on a survey conducted by the Association of Certified Fraud Examiners (ACFE) Indonesia, fraud that occurred in Indonesia found that in 2019, 167 cases of corruption were found, 50 cases of misappropriation of state and company assets or assets, and 22 cases of financial report fraud with losses reaching hundreds of billions of rupiah.

Good Corporate Governance is a solution in emphasizing a problem whose root is agency conflict. The five principles upheld by the company in providing good governance for the company or called Good Corporate Governance (GCG) according to the National Committee on Governance Policy are openness, accountability, responsibility, independence, and fairness. Along the way, there have been various developments in good corporate governance, including the importance of the presence of an independent audit committee and board of commissioners who are able to suppress conflicts of interest caused by company management.

The audit committee has a degree of independence which can be seen from whether the audit committee is from the board of commissioners or from outside the company. In the process of carrying out its functions as an audit committee, the resources of audit committee members are needed from various aspects such as educational background, knowledge, expertise, experience, and activities carried out by the audit committee (Rustiarini, 2012). Studies regarding the relationship between the audit committee and firm value were conducted by Sondokan et. al. (2019), Marini and Marina (2017), Munifah et. al. (2022), Mardiyaningsih and Kamil (2020), and Amaliyah and Herwiyanti (2019).

An independent board of commissioners is a board within a company that has no financial, management, share ownership and/or family relationships with members of the board of commissioners, directors and majority shareholders. This independence is evidenced by the

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absence of affiliated relationships which will make the performance of the board of commissioners more independent in monitoring and determining policies at the commissioner level towards the management of a company. Research on independent board of commissioners on firm value was directly carried out by Rivandi (2018), Mardiyaningsih and Kamil (2020), Amaliyah and Herwiyanti (2019), Bakhtiar et. al. (2020), and Sondokan et. al. (2019).

Financial performance can be a reference for determining the proportion of independent audit committees and boards of commissioners in providing oversight to company management. Determination of the proportion of the independent audit committee and board of commissioners is done by looking at the benefit of the company's operating results. This is due to the additional costs that arise from expanding the proportion of independent audit committees and boards of commissioners. Dewi and Gustyana (2020) reveal that high financial performance has an impact on a stronger relationship between the composition of the audit committee and the independent board of commissioners on firm value.

This is a development from previous research that only examined the direct effect of the independent variables of the audit committee and the independent board of commissioners on firm value, because this study included a moderating variable, namely financial performance. The data taken by this study also used data from 2017 to 2019 with the SRI KEHATI index, which incidentally was selected based on companies that had good performance. The construction built on this research aims to enable corporate investors and policy makers of company owners to be able to see the application of the composition of the audit committee and board of commissioners to firm value while at the same time seeing how the company's financial performance strengthens or weakens this relationship. So it is hoped that this research will become a reference that the implementation of corporate governance has a proxy for how audit committees and independent commissioners are able to have an impact on firm value.

Hypotheses Development

The audit committee is a number of board members who have the responsibility of assisting the auditor to remain independent of management (Arens et. al., 2010 in Rivandi, 2018). The audit committee is appointed and responsible to the board of commissioners specifically to the main commissioner in carrying out overall supervision of the company so that it is able to supervise management so that it is in harmony with the interests of investors.

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The audit committee is an indicator of good corporate governance which plays a crucial role in monitoring and controlling the company (Jensen and Meckling, 1976).

Anthony and Govindarajan (2011) agency conflict between principals and agents is caused because individuals are motivated by their own interests. The agency theory supports the existence of a proportion of audit committees in their role of assisting auditors to remain independent of management. In particular the audit committee is able to obtain data on the entire company. The audit committee can also interact directly with employees and management devices within the company. So that the flexibility of the audit committee in acting is not limited and increasingly has a good impact on the company. With this mechanism, investors will increasingly believe that the company is working within the scope of its interests. Agency theory states that the audit committee has more control over the performance of company management and can carefully monitor the performance of company management so that it will increase firm value (Abdullah et. al., 2012 in Fatma and Chouabi, 2021).

Munifah et. al. (2022) conducted research on firm value with the results of the research that a large proportion of audit committees has a positive effect on firm value. In line with the results of Rivandi's research (2018), Sondokan et. al. (2019), Amaliyah and Herwiyanti (2019), Mardiyaningsih and Kamil (2020) explain that there is a positive and significant relationship that has an effect on firm value.

H1: The audit committee has a positive effect on firm value.

Financial Services Authority Regulation number 33/POJK.04/2014 states that an independent board of commissioners is a device of commissioners whose membership has no direct affiliation either financially, management, shares, family relationship to members of the commissioners, members of the board of directors, shareholders in the company. The independent board of commissioners has the task of overseeing and implementing strategic policies within the company and providing advice to the board of directors (Amrizal and Rohmah, 2019).

The independence of the independent board of commissioners will be seen in the company that with a larger proportion it will lead to more oversight of the company's management performance. Fatma and Chouabi (2021) explain that according to agency theory,

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an independent board of commissioners controls and monitors management, therefore it can reduce costs arising from conflicts of interest. An independent board of commissioners can help reduce opportunistic behavior in the personal interests of management and oversee company activities so that it will have an impact on the effectiveness and efficiency of the company's operations and the company's value will increase significantly (Rivandi, 2018).

Research conducted by Rivandi (2018), Muttaqine et. al. (2019), and Munifah et. al. (2022) shows that an independent board of commissioners adds value to the company's value. The greater proportion of independent commissioners will have an impact on the supervisory duties and duties as providing policy views to top management to run optimally so that it will provide added value to the company.

H2: The independent board of commissioners has a positive effect on firm value.

There are several theories stating that the company's financial performance has a direct influence on firm value (Suhadak et. al., 2018). Profitability will support the decision to further suppress agency conflicts that occur in the company. Jensen and Meckling (1976) state that the existence of corporate boards and management is the basis for agency theory. Conflicts of interest that occur because management makes decisions that are basically not approved by the shareholders. The use of agency costs originating from the company's financial performance will be effective in evaluating management (Suhadak et. al., 2018).

Investors make judgments that financial performance is a determining factor in dividend policy. The higher the profit generated by the company, the more valuable it will be for the company (Husnan and Pudjiastuti, 2012). The large profit generated will provide decision-making flexibility to have a larger proportion of audit committees. Budiharjo (2021) argues that a large proportion of the number of audit committees in a company will increasingly supervise and increase firm value with its profitability.

Previous studies conducted by Suhadak et. al. (2018) and Permatasari and Gayatri (2016) found that financial performance is able to moderate the good corporate governance factor on firm value. Research conducted by Budiharjo (2021) and Munifah et. al. (2022) found that financial performance is able to moderate the audit committee's relationship to firm value. Financial performance is an indicator of how the company's condition will be in the future, so that if the financial performance is good it will open up opportunities for a larger proportion of

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audit committees in the company, because audit committees are generally professionals who are able to improve oversight of the company.

H3: Financial performance has a positive effect on the relationship between the audit committee and firm value.

In theory, an independent board of commissioners agency has a control function which is a representative in controlling management's opportunistic behavior so as to assist in aligning the interests of shareholders and management (Jensen and Meckling, 1976). According to Rivandi (2018) a larger proportion of independent commissioners is able to minimize conflicts of interest of managers and stakeholders. This is due to the role of the independent board of commissioners in the oversight function of company control.

In companies that have a high score of implementing good corporate governance, especially companies with high profitability, it will result in a higher corporate value (Permatasari and Gayatri, 2016). The application of good corporate governance will make managers more transparent and public control over companies will be greater. Management will support the policy of increasing the proportion of independent commissioners to maintain transparency and oversight of the company.

Previous studies conducted by Suhadak et. al. (2018) and Permatasari and Gayatri (2016) found that profitability strengthens the effect of good corporate governance on firm value. The high financial performance found in companies with high good corporate governance scores gives a positive signal for the interests of stakeholders where stakeholders consider that they pay attention to the interests of their stakeholders. In particular, Munifah et. al. (2022) found that financial performance is able to strengthen the relationship between independent commissioners and firm value. Large profits due to positive financial performance will provide the availability of funds for development and training for even an independent board of commissioners. So that the ability to supervise the independent board of commissioners also increases so that the company's value will also increase under these conditions.

H4: Financial performance has a positive effect on the relationship between the independent board of commissioners and firm value.

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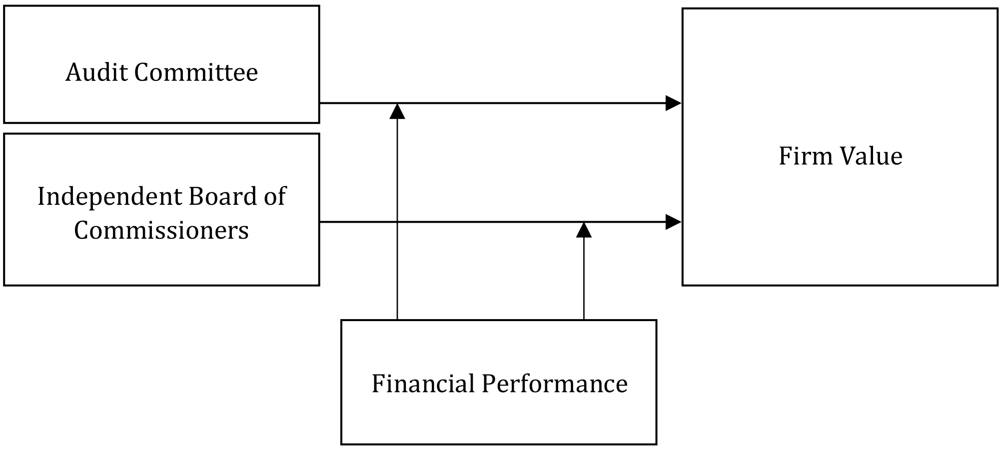

Figure 1. Research Model

Method, Data, and Analysis

Data and Sample

The population in this study were all companies indexed by SRI KEHATI during 2017-2019 on the Indonesian stock exchange. While the samples were obtained through purposive sampling method with the following sample criteria and result,

Table 1. Sampling Criteria & Result

No	Criteria	Number of Companies
1	The company indexed SRI KEHATI for three consecutive years during the study period	31
2	Number of companies that are not consistently indexed by SRI KEHATI in 2017-2019	(9)
3	Companies that do not report financial statements in rupiah values during 2017-2019	(1)
4	Companies that experienced losses during 2017-2019	(1)

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5	The number of companies that meet the criteria	20
6	Total data for 3 years (20x3)	60

Dependent Variable

Brigham and Houston (2011) revealed that firm value plays a very important role, because with firm value the prosperity of shareholders will be measured. The firm value reflects the price of a share in the company. Amrizal and Rohmah (2017) use the PBV (Price to Book Value) ratio in evaluating companies. PBV can be assessed as to whether the company has been effective in making decisions on the use of economic resources and future investments for the company. PBV value is formulated as follows,

$$PBV= \frac{Shares\ Market\ Price}{Book\ Value\ Per\ Share}$$

Independent Variable

The audit committee according to Lukviarman (2016) has the task of monitoring management and is responsible to the board of commissioners. The audit committee has characteristics that explain the freedom to assess a matter without any coercion from any party within the scope of the audit committee. Rivandi (2018) uses a measure of the number of audit committees to see audit committees.

According to the Financial Services Authority Regulation number 33/POJK.04/2014 an independent board of commissioners is a board of commissioners that has no affiliation of any kind and to anything in relation to the company. Research conducted by Rivandi (2018) that the measurements of the independent board of commissioners are as follows,

$$Independent\ Board\ Commisioners= \frac{Number\ of\ Independent\ Commisioners}{Total\ Board\ of\ Commisioners}\ x\ 100\%$$

The ratio used in the financial performance variable is the profitability ratio. Profitability is the ratio of assessing a company's ability to make a profit (Kasmir, 2015). Return on Equity (ROE) shows the company's ability to generate profit after tax by using the company's own capital (Sudana, 2011). The formula for ROE is as follows,

$$ROE= \frac{Net\ Profit\ After\ Tax}{Total\ Equity}\ x\ 100\%$$

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Control Variable

Riyanto (2011) suggests that company size is the size of the company which can be seen from the value of its assets. The size of the total assets of the company means that the size of the company is getting bigger and vice versa if the total assets are getting smaller it indicates the size of the company is small. The company size variable is measured by the natural logarithm of total assets (Firda and Efriadi, 2020).

$$LnTA = \text{Natural Logarithm of Total Assets}$$

The leverage ratio is the ratio used to measure the extent to which the company's assets are financed using liabilities (Kasmir, 2015). The function of the leverage ratio is to assess the company's ability to pay all of its obligations if the company is liquidated. In the research conducted by Firda and Efriadi (2020) to measure company leverage, the debt to assets ratio is used by comparing the company's total debt and total assets in the company.

$$DAR = \frac{\text{Total Liablities}}{\text{Total Assets}} \times 100\%$$

Data analysis technique

The analysis used in this study is to use multiple linear regression analysis. Data processing was carried out using SPSS (Statistical Package for Social Sciences) software version 25. Before carrying out regression testing, descriptive statistical tests and classical assumption tests were carried out first. Descriptive statistical analysis provides a description of the data so that the information is clearer and easier to understand. This can be seen from the sample value, average, mode, standard deviation, maximum and minimum values. The classical assumption test consists of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Normality testing serves to test the regression method, variables can be judged that are normally distributed or not. Testing for normality in this study using Kolmogorov-Smirnov. Provisions in the Kolmogorov-Smirnov normality test according to Sekaran and Bougie (2017) if the probability number is below 5% then the data is not normally distributed. Meanwhile, if the probability number is above 5%, the data is normally distributed.

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Multicollinearity testing was carried out to test the existence of collinearity between independent variables. A good regression model is free from multicollinearity, this can be done by looking at the tolerance value and VIF (Variance Inflation Factor). If the VIF value is > 10 and the tolerance is below 0.10, multicollinearity occurs in the regression model, conversely if the VIF value is < 10 and the tolerance is above 0.10, there are no symptoms of multicollinearity (Ghozali, 2013).

Heteroscedasticity has the aim of testing for the inequality of residual variance from one observation period to another. If there is a residual variance between fixed observations, it is called homoscedasticity and if it is different, it is called heteroscedasticity.

The autocorrelation test has the aim of testing whether the linear regression model has a correlation between the confounding errors in the t period and the t-1 period errors (Sekaran and Bougie, 2017). Autocorrelation testing is needed for time series research. The autocorrelation test in this study used the Durbin Watson test. If the Durbin Watson results are between 2 and 4-du, then it is said that the data does not have autocorrelation.

The linear regression model is used to test the probability of the occurrence of the dependent variable. This model can be predicted with independent variables and the MRA (Moderated Regression Analysis) moderation interaction test to test the interaction hypothesis. This study has two multiple linear regression models, (1) Examine the direct relationship between the audit committee and the independent board of commissioners on firm value. (2) Examine the relationship between the audit committee and the independent board of commissioners with firm value moderated by profitability.

Model,

$$NP = \alpha + \beta 1KAI + \beta 2DKI + \beta 3LnTA + \beta 3DAR + e \quad (1)$$

$$NP = \alpha + \beta 1KAI + \beta 2DKI + \beta 3LnTA + \beta 4ROE + \beta 5ROE\_KAI + \beta 6ROE\_DKI + \beta 7LnTA + \beta 8DAR + e \quad (2)$$

Information ,

NP = Firm Value

KAI = Number of Audit Committees

DKI = Percentage of Independent Commissioners

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ROE = Financial Performance

LnTA = Total Assets

DAR = Leverage

Results

Descriptive statistics are used to describe the sample data on the variables of firm value, audit committee, independent board of commissioners, company size, leverage, and financial performance. The results of the descriptive statistics are as follows,

Table 2. Descriptive Statistics

Variable	**Obs**	**Mean**	**Median**	**Mode**	**Std. Deviation**	**Minimum**	**Maximum**
PBV	60	2,2497	1,494	,29	2,69593	0,29	16,49
KAI	60	3,8	3	3	1,13197	3	7
DKI	60	0,4334	0,4	0,33	0,14075	0	0,83
ROE	60	0,1917	0,1364	0,01	0,26645	0,01	1,4
ROE_KAI	60	0,6941	0,487	0,04	0,81471	0,04	4,2
ROE_DKI	60	0,1078	0,0535	0,00	0,22591	0	1,17
LNTA	60	32,0537	32,0068	33,49	1,61281	28,95	34,89
DAR	60	0,5811	0,5839	,00a	0,21098	0	0,9

Source Stata Data Result

Based on the normality test using Kolmogorov-Smirnov on table 3 shows that significance value of 0.200 was found which is above the confidence level set at 0.05 so that the data is normally distributed.

Table 3. Normality Test

	Kolmogorov-Smirnov Test
Asymp. Sign (2-tailed)	0,200

Source Stata Data Result

As a reference to avoid collinearity between variables, it can be seen through the VIF (variance inflation factor) value and the tolerance value in the variables.

Table 4. Multicollinearity Test

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Variable	Tolerance	VIF
KAI	0,657	1,521
DKI	0,433	2,312
LnTA	0,625	1,599
DAR	0,890	1,124
ROE_DKI	0,442	2,261

Source Stata Data Result

The data in table 4 shows that the tolerance value for each variable is more than 0.1 so that it can be said that there is no multicollinearity and VIF is below 10 so it is objective.

Table 5. Excluded Variable Multicollinearity Test

Variable	VIF	Minimum Tolerance
ROE	.	0,000
ROE_KAI	.	0,000

Source Stata Data Result

In table 5 there are excluded variables, namely financial performance variables and financial performance moderating variables on the audit committee. Both of these variables are known to have symptoms of multicollinearity so that these variables are not included in the next regression model.

Table 6. Heteroscedasticity Test

Variable	Sig.
KAI	0,453
DKI	0,299
LNTA	0,265
LN_DAR	0,338
ROE_DKI	0,199

Source Stata Data Result

Based on table 6 it shows that the variables tested do not contain heteroscedasticity. Because the significance is above 0.05 for all variables.

Table 7. Autocorrelation Test

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Model	**Durbin-Watson**
1	1,944

Source Stata Data Result

Based on table 7 the Durbin-Watson value is 1.944, this value is compared to the table value with a significance of 5%, the number of samples is 60 and the number of independent variables is 2, moderation 1, and control 2 is obtained by the Durbin Watson table of dl = 1.4083 and du = 1.7671. So the Durbin-Watson value which shows 1.944 is greater than the upper limit of du of 1.7671 and less than 4-du of 2.2329. This indicates that there is no autocorrelation of these variables.

Table 8. Determinant Coefficient Test

Model	**Adjusted R Square**
1	0,558

Source Stata Data Result

The adjusted R square value on table 8 shows 0.558, this shows that 55.8% is explained by the variable audit committee, independent board of commissioners, financial performance on the independent board of commissioners, leverage, company size and the remaining 44.2% is explained by variables outside the equation.

Table 9. Hypothesis Test

Model	**Variable**	**B**	**Sig.**
1	(Constant)	10,764	0,146
	KAI	0,536	0,182
	DKI	1,341	0,000
	LNTA	-2,864	0,195
	DAR	-0,148	0,095
2	(Constant)	7,301	0,188
	KAI	0,481	0,111
	DKI	-0,407	0,265
	LNTA	-1,721	0,298
	DAR	-0,171	0,011

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ROE_DKI	0,678	0,000

Source Stata Data Result

The first hypothesis test of the independent board of commissioners variable shows a significance level of 0.182 > α (0.05). The regression coefficient shows a positive direction of 0.536. Thus the test results show that the first hypothesis is rejected, namely the audit committee has no effect on firm value.

The second hypothesis test of independent board of commissioners variables showed a significance level of 0.000 < α (0.05). The regression coefficient shows a positive direction of 1.341. Thus the test results show that the second hypothesis is accepted, that is, the independent board of commissioners has a significant positive effect on firm value.

In the multicollinearity test, the financial performance variable for the audit committee is included in the excluded variable so that this variable is excluded and not included in the regression model. This is because there are still other variables that have a greater influence on firm value. Other variables, namely the audit committee, independent board of commissioners, company size, and leverage have a greater influence so that variables that have very little influence are not feasible to be included in the equation and do not draw conclusions from the existing test results.

The fourth hypothesis test of financial performance variables shows a significance level of 0.000 < α (0.05). The regression coefficient shows a positive direction of 0.678. Thus the test results show that the fourth hypothesis is accepted, namely financial performance has a positive effect on the relationship between the independent board of commissioners and firm value.

Discussion

The results of first hypothesis testing show that the audit committee has no significant effect on firm value. This means that in companies indexed by SRI KEHATI, the audit committee is not a positive image to increase firm value. The audit committee in its function does not play a role in influencing financial reports or monitoring so that the company performs well.

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Based on Bapepam Decree number KEP-643/BL/2012 concerning the formation and guidelines for the implementation of audit committee work, it is stipulated that the decisions of a minimum of 3 (three) members of the audit committee are considered not to be an added value for investing in companies that are in it. The proportion of audit committees that are independent for formal requirements does not increase the efficiency of SRI KEHATI indexed companies (Fatma and Chouabi, 2021). As a result, the results of this study do not support agency theory because it is inconsistent with the view that the greater the proportion of audit committees, the more likely it is that the audit committee will be able to suppress agency conflicts and be able to improve firm performance in which good value will be generated for the firm.

In line with the research results of Marini and Marina (2017) stating that the existence of an audit committee is not a guarantee that the company's performance will get better, so that investors consider the audit committee is not a factor in appreciating the value of the company. The same results were also found by Amrizal and Rohmah (2019), Krisnando and Sakti (2019), and Dewi and Gustyana (2020) where the audit committee has no significant effect on firm value.

In testing the second hypothesis, the independent commissioner variable has significant positive results on firm value. The higher the proportion of the board of commissioners who come from outside the company, the more it will give a good image to the company in the eyes of investors. The existence of an independent board of commissioners is of interest to investors because of its performance in providing good corporate governance.

In line with agency theory, Jensen and Meckling (1976) stated that a large proportion of independent commissioners is able to suppress opportunistic management behavior that is not in line with the interests of the company owner. The greater the proportion of independent commissioners, the more effective the oversight and role of the corporate board is for the company to provide advice to the company's top management.

In line with research conducted by Rivandi (2018), independent commissioners carry out their duties and responsibilities well for the company. The results of the same study were also found by Muttaqine et. al. (2019) and Munifah et. al. (2022) where an independent board of commissioners adds value to the company's value.

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The results of fourth hypothesis testing indicate that financial performance has a positive effect on the relationship between the independent board of commissioners and firm value. This shows that high financial performance will strengthen the relationship between the independent board of commissioners and firm value.

In line with agency theory where the availability of high financial performance results will open up resources for independent commissioners to improve control of management's opportunistic behavior so as to assist in aligning the interests of shareholders and management (Jensen and Meckling, 1976). The company's profit, which incidentally is the output of financial performance, is a tool both as motivation and a resource for self-development for the independent board of commissioners. High corporate profits will increase the allocation to provide additional training to develop skills for independent commissioners so that it will further enhance the ability to supervise good corporate governance and increase corporate value.

High financial performance results for the company provide a positive signal where it is considered by stakeholders to pay attention to their interests (Suhadak et. al, 2018). This research is in line with the results of a study by Munifah et. al. (2022) where the company's good image will be able to increase along with the effect of profit on the relationship between the independent board of commissioners and firm value.

1. Conclusion, Limitations, and Suggestions

This study aims to determine the effect of the independent audit committee and board of commissioners on firm value with financial performance as a moderator of the SRI KEHATI company on the Indonesia Stock Exchange for the 2017-2019 period. By using multiple linear regression analysis, this study managed to find that audit committee has no effect on firm value. This indicates that the large proportion of audit committees does not affect the increase or decrease in firm value. The board of independent commissioners has a positive effect on firm value. This indicates that the large proportion of independent commissioners will increase the value of the company. Financial performance has a positive effect on the relationship between the independent board of commissioners and firm value. This shows that the higher the company's financial performance will strengthen the resources of the independent board of commissioners to supervise the company so that it will increase the value of the company.

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In this study there was a limited number of samples which were only able to collect 60 samples in 20 companies for 3 years. A larger sample will certainly have a more general data impact and be able to produce more objective results. Apart from that, due to limited resources and time, researchers only raised good corporate governance variables, namely independent commissioners and audit committees. With a longer research timeframe, researchers can then add to the mechanism of good corporate governance to become an independent variable to see more broadly the influence of good corporate governance on firm value.

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