

Profitability Analysis on Company Value with Good Corporate Governance As A Moderating Variable

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ABSTRACT

Financial performance is a measure of the poor performance of a company. The financial performance is influenced by the business strategy implemented by the company itself. This study aims to analyze the profitability variable on firm value with Good Corporate Governance (GCG) as moderate. The profitability variable was measured using the Return on Assets (ROA) value. Meanwhile, Company Value is measured by Tobin's Q. GCG as a variable is measured by two proxies, the Independent Board of Commissioners and the Audit Committee. The sample in this study was 10 State-Owned Enterprises (BUMN) in finance and insurance listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. The technique used in this research is purposive sampling. The study results indicate that profitability has a significant effect on firm value. Based on the value of t count (3.955) > t table (0.677) and the value of Sig (0.000) < 0.05. GCG (Good Corporate Governance) can moderate the effect of profitability on firm value based on the value of t count (8.096) > ttable (0.677), and the Audit Committee based on the value of t count (8.332) > ttable (0.677). Profitability can explain the variation of the firm value variable based on the R2 value of 28.5%, and GCG (Independent Board of Commissioners and Audit Committee) can strengthen the relationship between profitability and firm value to 47.7%.

1. INTRODUCTION

Financial performance is a measure of the good and bad performance of a company. The financial performance of a company is influenced by the business strategy implemented by the company itself (DasGupta, 2021; J. Wang et al., 2021). The competition from each company is getting tougher to win the competition, especially State-Owned Enterprises Company (BUMN). Increased financial performance will affect the value of the company for shareholders and stakeholders (Done, 2015; Rhou & Koh, 2014). Indicators used to assess the company's financial performance through financial ratios. The ratio that is often used is Return on Assets (ROA) where the analysis is used to measure the profitability or profitability of the company itself (Andrés et al., 2015; Rey-Ares et al., 2021). ROA shows the efficiency of a company in using its assets to generate profits. The higher the ROA value, the better the company's performance (Aigbedo, 2021; C. Wang et al., 2021). Assets and liabilities are to the company's investment. Calculation of rentability ratio by calculating the ratio of profit with assets in generating profit can know the efficiency of a company. The level of capital in BUMN for 2016 to 2018 grew insignificantly because several years the assets and liabilities did not change by using the calculation of total assets, liabilities, and equity.

Company value is a condition that has been achieved by the company as a reflection of public trust in the company (Hadian & Adaoglu, 2020; Huang et al., 2020). In general, the financial or financial performance of BUMN has increased, but seen from the performance of BUMN, it has not improved, seen from the calculation of the rentability ratio with Return on Assets (ROA) where during 2016 to 2017 it has decreased. It is important information to know the value of the company by looking at the company's performance to see the success of the company, maximizing the value of the company is important in realizing the main goals of the company (MacDiarmid et al., 2018; Tarczyński et al., 2020).

Several factors in calculating the rentability ratio to assess a company are Good Corporate Governance (GCG) (Rusydi et al., 2020; Tjahjadi et al., 2021). Corporate governance is a series of structured processes used to manage and direct corporate businesses and businesses with the aim of increasing corporate values and business continuity. Corporate governance is a process and structure used by company members (shareholders, commissioners or supervisory boards, and directors) to increase

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business success and corporate accountability to realize long-term shareholder value while still paying attention to the interests of other stakeholders, based on statutory regulations. -laws and ethical values (Ariesta & Latifah, 2017). The role of the management system required in an effort to increase company value. A good company management system means that the company value, one of which is the company's stock price, also increases so that the company's performance also increases (Nasreen et al., 2020; Piñeiro-Chousa et al., 2020). GCG is related to enhancing the image of the company itself. The implementation of GCG is related to increasing company value. GCG is able to moderate the financial management relationship by analyzing the profitability of the company value.

Disputes between the principal and the agent arise due to the relationship between the two because agency costs arise where the agent does not fulfill the principal's wishes. GCG is one way to improve company performance through supervision or monitoring of financial management performance (Dzulkifli et al., 2020; Markonah et al., 2016). The structure of GCG regarding the distribution of rights and responsibilities of related parties as stakeholders, where it explains how the rules for decision making of policies are so that the objectives of monitoring financial performance can be accounted for (Luthan et al., 2016; Puspitaningrum & Atmini, 2012).

Several studies have been conducted to see the relationship between GCG, company performance, and company value. The factors that affect stock returns in property and real estate companies. One of the results of this research shows that Return on Assets (ROA) on stock returns has a negative and insignificant effect on stock returns (Sudarsono, 2016). ROA is one of the factors on company value (Graham & King, 2013; Raei et al., 2016). Next, previous research found that GCG has a significant effect on financial performance, GCG has a significant effect on company value and financial performance has a significant effect on company value (Chasanah & Laily, 2020). The result of the conclusion states that GCG simultaneously moderates company performance towards company value.

Based on a review of the literature that has been carried out by the author, it can be stated that the research gap in this study is as follows: in state-owned companies engaged in the financial sector with a proxy to measure profitability using the value of Return on Asset (ROA), company value is measured by the proxy of Tobin's Q, and the GCG indicators used are the independent board of commissioners and the audit committee, where GCG is a variable that moderates the effect of rentability on company value. This research is expected to benefit both internal and external BUMN companies. The results of this study are expected to be useful for company management in increasing company value, especially state-owned companies listed on the IDX. With this research, it is proven that the company can implement GCG, especially the proxies for the Independent Board of Commissioners and the Audit Committee to increase company value. For external parties, this research can be useful for investors in investing to determine the company's ability to implement GCG to earn profits in order to increase company value.

2. METHODS

This research was conducted on state-owned companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2020. Purposive sampling technique is a sampling technique that will be used in this study. The criteria to be used in the selection of samples are: (1) State-owned companies, especially those engaged in the financial sector registered in IDX and issued consecutive annual financial report from 2016-2020. (2) Companies that present complete data for use in this study include data related to the analysis of profitability, company values, and Good Corporate Governance.

The data used in this study uses the type of panel data, where the combination of time series and cross section data. The data source used in this study is secondary data obtained indirectly from the source, secondary data is obtained from the annual financial report of BUMN companies for the 2016-2020 period. The annual financial reports of BUMN companies can be accessed directly through the IDX website, namely www.idx.co.id. The data used in this study are net income, total assets of state-owned companies listed on the IDX for the 2016-2020 period.

Company value is measured by Tobin's Q proxy. This ratio was developed by James Tobin's Q to provide information in explaining the phenomenon in investment decision making. In the analysis of profitability, Return on Assets (ROA) is a ratio that can measure the ability of companies to utilize assets to earn profit. Proxies of GCG that can strongly moderate rentability to the value of the company used in this study include: Independent Board of Commissioners (Z_1) and Audit Committee (Z_2). The independence of the board of commissioners reduces fraud in financial reports, so that it is effective in monitoring and improving financial reports. So that the quality of good financial reports can increase the value of the company. Independent commissioners aim to balance the board of commissioners' decision-making. The audit committee ensures that the company is run in accordance with regulations and is implemented

effectively. The audit committee assists in monitoring the implementation of GCG in the company, which increases the company's value later.

The above data is processed and analyzed using moderated regression analysis (MRA), which uses secondary data from each variable and obtained from the annual financial report of state-owned enterprises. The collected data is then processed using IBM SPSS Statistics 25 which will then be interpreted, analyzed and conclusions drawn from the processed data. The stages of data analysis in this study are descriptive statistics, normality test, and classical assumption test by using IBM SPSS. Hypothesis testing can be done with Correlation and R Square in finding and assessing the correlation between rentability and company value moderated by GCG seen in the output correlations table, F test can be used to assess the feasibility of a moderated regression model and predict moderate variables (the interaction between X and Z) which together have an effect on variable Y, and T test to determine the significant impact of GCG in moderating rentability on the company's value. All of these tests assisted by statistical test tools, namely the simple regression analysis method in the SPSS program. Provisions for the level of significance (α) is 0.05 or 5%. Moderated Regression Analysis (MRA) or interaction test that applies multiple linear regression where there is an interaction of the multiplication of two or more independent variables.

3. RESULTS AND DISCUSSIONS

Results

Descriptive statistics aim to provide an overview or description of data that can be seen from the mean (average), standard deviation, variance, maximum, minimum, cartosis and skewness (distribution slope). The following shows the data from the descriptive statistical test results of the variables used in this study, namely profitability as an independent variable, Company Value as a dependent variable, and the Independent Board of Commissioners and the Audit Committee as a moderating variable.

The data used in the study amounted to N=50 or 50 data (10 state-owned companies in finance and insurance sector registered with IDX from 2016-2020). Based on the table above, it can be known that the profitability variable has a minimum value of 0.003 and a maximum value of 0.039. The average rentability value is 0.01462 with a standard deviation of 0.0097. Variable profitability has homogeneous data distribution or data does not vary much, where indicated from an average value greater than the standard deviation.

The company value variable has a minimum value of 0.807 and a maximum value of 4,356. The average value of the company value variable is 0.01465 with a standard deviation of 0.93. Therefore, the distribution of company value variable data is heterogeneous, so it cannot represent the overall data set properly. The variables of the Independent Board of Commissioners and the Audit Committee have a minimum value of 0.143 and a maximum value of 1,000. The average Independent Board of Commissioners is 0.27 with a standard deviation of 0.19. While the average Audit Committee is 0.23 with a standard deviation of 0.16. Both GCG proxy variables have homogeneous data deployment, so they represent their data sets well.

The normality test aims to test whether in the regression model, the dependent variable and the independent variable both have a normal distribution or not. Normality test was performed by Kolmogorov-Smirnov analysis. If the significance value is greater than 0.05 then the research data is normally distributed and vice versa if the significance value is less than 0.05 then the research data is not normally distributed. Based on the SPSS output table above, it can be seen that the significance value (Asymp Sig 2-tailed) is 0.976 more than 0.05. So, it can be interpreted that the research data are normally distributed according to the basis for decision making in the Kolmogorov-Smirnov normality test. Thus, the requirements for normality have been fulfilled.

Multicollinearity shows that the independent variables have a very strong direct relationship (correlation). Multicollinearity occurs if the VIF (Variance Inflation Factor) value is greater than 10 or the Tolerance value is less than 0.10. The VIF value ranges from 1.194-2.994 for all variables. While the Tolerance value ranges from 0.352-0.837. The results show that all variables have a VIF value <10 and a Tolerance value > 0.10 so it can be interpreted that there is no multicollinearity problem.

Autocorrelation shows that there is a correlation between the error and the error of the previous period, where under the classic assumption this should not happen. Autocorrelation test was performed using Durbin Watson. If the Durbin Watson value is within the upper limit value, (d_L) mthen it is estimated that there is no violation of autocorrelation. If Dw is smaller than d_L or greater than $4-d_L$ then there is autocorrelation. If Dw is located between d_U and $4-d_U$ then there is no autocorrelation. Whereas if Dw is located between d_L and d_U or between $4-d_U$ and $4-d_L$ then it does not produce a definite conclusion. Based on Durbin Watson's table with a significant level of 5%, a sample of 50 with 5 free variables (profitability, independent board of commissioners, audit committee, profitability*independent board of commissioners,

profitability *audit committee), value d_L is 1.3346 and the d_U 1.7708. So we can get a $4-d_L$ for 2,6654 and $4-d_U$ for 2,2292. The results of data processing using SPSS show the Dw or Durbin Watson value of 2.158, which is in the area of $d_U < Dw < 4-d_U$. So it can be concluded that there are no problems or symptoms of autocorrelation.

Heteroscedasticity test shows that the variance of each error is heterogeneous which means it violates the classical assumption which requires that the variance of the error must be homogeneous. Heteroscedasticity testing can be done using a scatterplot, namely the dependent variable on the X axis is ZPRED and the independent variable on the Y axis is the residual SRESID. If the data from the scatterplot graph is gathered between the zero points and forms a certain pattern between the zero points, it can be concluded that the regression model used does not have heteroscedasticity. The scatterplot graph above, it is known that the data from the scatterplot graph is randomly spread beyond the zero point and does not form a certain pattern between the zero points, it can be concluded that the regression model used does not have heteroscedasticity.

The results of the coefficient of determination on the model 1 equation are to test the effect of profitability on the company's value before moderating GCG (Independent Board of Commissioners and Audit Committee). Based on the results of the regression test model 1 obtained adjusted value R^2 is 0.236. This means that independent variables namely rentability (ROA) are able to explain the variation of dependent variables i.e. the company value (Tobin's Q) of 23.6 percent. While the remaining 76.4 percent can be explained by other factors that are not included in the research model.

The results of the coefficient of determination on the model 2 equation are to test the effect of rentability on the company's value after moderating GCG (Independent Board of Commissioners and Audit Committee). Based on the results of the regression test model 2 obtained adjusted value R^2 is 0.324. This means that independent variables namely rentability (ROA) along with moderation variables namely GCG (Independent Board of Commissioners and Audit Committee) are able to explain the variation of dependent variables, namely the company's value (Tobin's Q) of 32.4 percent. While the remaining 67.6 percent can be explained by other factors that are not included in the research model.

The R^2 value in the first regression is 0.285 or 28.5 percent while after the second regression equation, the R^2 value rises to 0.477 or 47.7 percent. By looking at these results, it can be concluded that the existence of GCG as a moderation variable is able to strengthen the relationship between profitability and the value of the company. The F test is used to test whether together all independent variables have a significant influence on dependent variables. If $Sig < 0.05$ then H_0 is rejected and if $Sig > 0.05$ then H_0 fails to be rejected. From the results of regression testing by looking at the table Anova known Sig value of 0.000 less than 0.05 then the model hypothesis equation 1 (H_1) is accepted, which means independent variables (profitability) simultaneously affect dependent variables (company values). While based on the value of F, it can be seen that the calculated F result is 21,113, while the table F value can be seen at the level of significance of 4.04. Thus, F calculates $(21,113) > F$ table (4.04) and it can be concluded that independent variables (profitability) simultaneously affect dependent variables (company values). The effect that independent variables exert on dependent variables is to strengthen so that the equation can be positively.

From the results of regression testing in the Anova table above, it can be concluded that the Sig value of 0.000 is smaller than 0.05 then the hypothetical equation of model 2 (H_2) is proven. While judging from the calculated F value of 63,935 greater than the table F value of 3.19. It is concluded that the moderation regression model used is good and feasible so that independent variables (profitability, profitability *independent board of commissioners, and profitability *audit committee) simultaneously affect dependent variables (company value). The influence of this regression model reinforces the influence of independent variables on dependents.

To test the hypothesis, a partial test was conducted to see the significance of the effect of each independent variable on dependent variables assuming that other variables were constants. If the Sig value < 0.05 then H_0 rejected (there is an influence between independent variables and dependent variables). If the Sig value > 0.05 , H_0 fails to be rejected (there is no effect between independent variables and dependent variables).

Based on the results of the t test can be seen that profitability has a positive influence on the value of the company of 3,955. The t value of profitability from the test result t, where t count (3,955) is more than the table t (0.677). While the sig value is 0.000. Where the sig value (0.000) is less than 0.05. So it can be concluded that there is an influence of profitability on the value of the company. If ROA has a high value, then the investor gets the positives from the company's performance, so that the capital is easily obtained by the company from the shares received by the investor. Where this indicates that when rentability is high in a company, the value of the company is also high in the eyes of investors.

Significant test results of Based on the results of the t test, it can be seen that the t value of the Independent Commissioners Council in moderating profitability is 8,096, where t count (8,096) is greater

than the table t (0.677). While the Sig value is 0.004, where the Sig value (0.004) is smaller than 0.05. It can then be concluded that the variables of the Independent Board of Commissioners are able to moderate the influence of profitability on the value of the company. The Audit Committee's t value in moderating profitability is 8,332, t count (8,332) is greater than table t (0.677). While the Sig value is 0.000, where the sig value (0.000) is smaller than 0.05. It can then be concluded that the Audit Committee variables are able to moderate the effect of profitability on the company's value.

Based on the t value, before GCG moderates profitability to the company's value, the company's value before GCG is applied is smaller than after. The company's value before (3,955) was smaller than after the implementation of the GCG of the Independent Board of Commissioners as a moderation variable (8,096). The company's value before (3,955) was smaller than after the implementation of the Audit Committee's GCG as a moderation variable (8,332). Thus, it is proven that GCG (Independent Board of Commissioners) strengthens the influence of profitability on the company's value.

MRA in this study was conducted through simultaneous signification test (F Statistical Test) and individual parameter significance test (statistical test). Test F results it is shown that the calculated F value (0.000) is less than the significance level (0.05), so that the rentability variable and the GCG moderation variable affect the company's value variable. While in the results of test t , independent variable interaction statistics and moderate variables provide a parameter coefficient value (0.004 and 0.000) smaller than the significance level (0.05), so it can be concluded that moderate variables are proven to moderate variable profitability against company values.

Discussion

In the F test results of the study on secondary data where the Sig value of 0.000 was smaller than 0.05. Thus this study, H1 was proven where profitability has a significant positive effect on the value of the company (Tobin's Q). The higher the financial performance seen from the company's ROA value, the company's value also increases (Andrés et al., 2015; Rey-Ares et al., 2021). The higher the ratio, the better the productivity of assets for net profit. So it can be concluded that there is an influence of profitability on the value of the company (Savagar, 2021; Yatsenko & Hritonenko, 2020). There is a significant positive influence of profitability on the value of the company (Rey-Ares et al., 2021; Zhou et al., 2021). If ROA has a high value, then the investor gets the positives from the company's performance, so that the capital is easily obtained by the company from the shares received by the investor. Where this indicates that when profitability is high in a company, the value of the company is also high in the eyes of investors.

The greater the company generates profit shown through good corporate financial performance, one of which with ROA can increase the value of the company (Farza et al., 2021; Nirino et al., 2021). The positive ROA value comes from the total assets for the company operating. Where the value of ROA is able to measure how much profit the company earns, then for investors the assessment of financial performance becomes important (Andrés et al., 2015; Rey-Ares et al., 2021). The greater the profit earned, the better the company's performance, significant with the value of the company that will come up.

In Anova Test for F test, the Sig value of 0.000 is smaller than 0.05 then the hypothetical equation of model 2 (H2) is proven that GCG affects profitability to the company's value. Managerial ownership proxy in moderating the influence of profitability (ROA) on the value of the company is having a negative direction (Rusydi et al., 2020; Tjahjadi et al., 2021). Meanwhile, GCG with independent board of commissioners and audit committee can strengthen the influence of profitability and company values. The independent board of commissioners and the high audit committee, will increase profitability which will ultimately increase the value of the company. GCG can control the company to create added value for stakeholders, one of which is by having a good financial performance, so that it is in line with the increase in the company's value. The role of GCG in moderating profitability and company values, if the company implements GCG can strengthen the influence of profitability on the value of the company (Nasreen et al., 2020; Piñeiro-Chousa et al., 2020). The implementation of GCG in the company will create cooperation in achieving the target, so that the company's performance is good, then impact on the return expected by shareholders.

The first GCG proxy is that the supervision of the independent board of commissioners on the management of the company can strengthen the influence of rentability seen from the ROA on the value of the company, where the independent board of commissioners moves independently free from pressure so as to create good and strong governance. A large proportion of independent commissioners increase investor confidence in the company's financial report, which are then used to calculate the ROA, which increases so that the company's value can rise. Next, the proxy audit committee is responsible for overseeing financial report and audits so that it is expected to prevent manipulation in financial report. With the audit committee can prevent fraud in financial report, investors can be more confident in the accuracy of the effect of rentability seen from the ROA value in the company's financial report and ultimately increase the value of the company, and vice versa.

4. CONCLUSION

Based on descriptive analysis of the characteristics of the company and the application of GCG in the annual report on 10 state-owned companies in the field of finance and financial registered in IDX, it can generally be concluded as follows. The higher profitability as measured by the Return on Asset (ROA) ratio also increases the company's value. The company's ability to generate profit is measured by ROA, so the value of the company can be seen from the company's performance in generating profit. GCG Proxy of the Independent Board of Commissioners on the management of the company can strengthen the influence of ROA on the value of the company. The existence of an Independent Board of Commissioners can increase investor confidence in the company's financial statements, thereby increasing the value of the company as well. The Audit Committee's GCG proxy on the company's management can strengthen the ROA influence on the company's value. The Audit Committee can keep the company's financial statements transparent and accurate.

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