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Does Good Corporate Governance Able To Moderate The Relationship Of Financial Performance Towards Firm Value?

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ABSTRACT
This study aimed to find out explicitly whether good corporate governance was able to moderate the relationship between financial performance and firm value that occurred in companies listed on the Indonesian stock exchange. The research was conducted on food and beverage companies in 2008-2017. The 10-year observation period obtained 50 observational data. By using Warppls 6.0 in processing observational data, the results showed that financial performance had an influence on the value of the company. This research also proved that good corporate governance proxied by share ownership by company leaders was able to moderate the effect of financial performance on firm value positively, but not for institutional share ownership. In this case, it could be said that the greater the dominance of the owner in corporate governance, the more positive the opportunity to obtain financial performance and the firm value becomes easier to achieve.
Keywords: Good Corporate Governance, Financial Performance, Firm Value, TobinsQ.

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INTRODUCTION

Indonesia as part of a developing country, Schwarz (2015), and had great potential because it had extensive natural resources compared to other ASEAN countries (Tristiarini, & Dwiarso Utomo, 2019). The largest archipelagic country in the world with the fourth largest population in the world, of course, it could be interpreted that Indonesia was a very large market in the world. As a potential market, industries in Indonesia, of course, try their best to grow and develop along with the population growth in Indonesia.

The rapid development of the business world was, of course, followed by intense competition between companies that require managers to implement appropriate business strategies that could improve a company's financial performance so that companies could compete in the highly competitive business world (Akmalia et al., 2017). This form of competitive attitude was expressed in the form of financial performance information in financial statements that were fundamentally read by investors, Nurdin & Kasim, (2017); and also Kuzey & Uyar, (2017), stating an increase in the company's market value as an impact of investor response to financial performance. Also, as a form of openness to reduce information asymmetry, as stated by Elliott & Elliott (2007) and Agyei-mensah (2016). In other words, it was also interpreted as a part of the company's accountability to its stakeholders, Linsley & Shrives, (2006) and Lajili, (2009).

Some of the previous studies which stated that financial performance had an influence with the creation of firm value were put forward by, Lorraine et al. (2004); Ramaswami et al. (2009); Crisóstomo et al. (2011); Iatridis, (2013); Bachoo et al. (2013); Qiu et al (2014); Lu & Abeysekera, (2014); Sucuahi & Cambarihan, (2016); Qiu et al. (2016); Nurdin & Kasim, (2017); Setiawanta & Septiani, (2017); and Kuzey & Uyar, (2017). Although some studies find opposite results, such as, Hermawan & Maf'ulah, (2014), Deswanto & Siregar, (2018), and also Setiawanta, (2016) with variables ROA and CR that do not had a significant relationship with the firm value.

Good financial performance certainly does not escape from the good role of corporate governance (Chen et al. 2010). One form of good corporate governance was the ownership of shares owned by the company leader such as directors or commissioners or institutional, which was believed to had an impact on the company's performance, (Denis & McConnell, 2003). Such ownership could be a good bridge between internal parties and external parties. Thus also, the decisions were taken the lead to an increase in the firm value (Ruan et al. 2011). So that accountability to all company stakeholders for all company activities becomes adequate or balanced, Lu & Abeysekera, (2014), more precisely for all stakeholders (Agyemang et al. 2013). Thus good corporate governance was one indicator of the mechanism of agency conflict reduction that occurs within the company.

Research related to the creation of corporate value as a result of many good corporate governance mechanisms had been carried out, Mutmainah, (2015), although the results of these studies were still diverse, especially for the mechanism of good corporate governance as measured by managerial ownership and institutional ownership. Good corporate governance as measured by institutional ownership had an influence on the firm value found by, Muryati, (2014); Putra, (2016); Meindarto, (2016); Santoso, (2017) and, Cyntia & Tambunan, (2017). On the contrary, institutional ownership had no influence on the firm value found by Subowo, (2014); Salafudin, (2016); Alfinur, (2016); and Nurfasa & Gustyana, (2017).

Good corporate governance, as measured by managerial ownership, had an influence on the value of the company found by Morck et al. (1988) with 371 companies at Fortune 500 in 1980, a positive and significant relationship was found. The same result was found by, Lee, (2003); Davies, Hillier, & Mccolgan, (2005); Ruan et al. (2011) and Lee & Hwang (2012). Other research in Indonesia was found by, Muryati, (2014); Salafudin, (2016); Alfinur, (2016); and Meindarto, (2016). The reverse results were found by, Rustendi & Jimmi (2008); Pujiati & Widanar, (2009); Hardiningsih, (2009); Imanta, (2011); Sofyaningsih, (2011); Sukirni, (2012); Amanti, (2012); Adnantara, (2013); Subowo, (2014); Ambarwati & Stephanus, (2014); Indrasti & Martini, (2014); Wida, (2014); Ali, (2014); Tandiyo & Stephanus, (2014); Rahma, (2014); Welim, (2015); Putra, (2016); Nurfasa & Gustyana, (2017); Yuslirizal, (2018) and also, Syafitri et al. (2018).

Owners of capital want to increase their wealth and prosperity, while managers also want to increase their welfare so that a principle conflict of interest arises with the manager (agent), (Pertiwi & Pratama, 2012). Owners were more interested in maximizing the return and price of securities from their investments, while managers had broad psychological and economic needs, including maximizing compensation (Jensen & Meckling, 1976). To reduce this, share ownership by directors or commissioners could be a solution, because effective monitoring of the board of directors could reduce misallocation of funds, employee performance becomes effective, thus increasing shareholder welfare and stock value which could also affect employees, (Isidro & Sobral, 2014). *Good corporate governance* (GCG) essentially, the management of the company must be done using good and right corporate governance (Gunawan, 2014). So it was believed that good governance practices could be a moderating factor in the relationship between financial performance and firm value (Retno & Priantinah, 2012).

Thus it could be hypothesized that good corporate governance was able to moderate the positive relationship between financial performance and firm value. The same results for objects of state-owned companies on the Indonesian stock exchange were found by (Muliani & Yuniarta, 2014). Likewise, for the object index company 100 companies in the compass newspaper version with ROA financial performance, it was found that Corporate Governance was able to moderate the firm value as stated by (Latifah & Murniningsih, 2017). This was reinforced by the results of previous research, which states that good corporate governance was able to moderate the relationship between financial performance and firm value. This was supported by the results of research conducted by, Widyaningrum, (2017), for companies registered with CGPI.

While the opposite result which states that good corporate governance had not been able to become a moderating variable in the relationship between financial performance and firm value. This was found by, Pertiwi & Pratama, (2012), with the object of food and beverage companies on the Indonesian stock exchange, financial performance was measured by ROA, company value was measured by Tobin's Q and good corporate governance was measured by managerial share ownership. The results of this study were supported by Carningsih (2009) for property companies on the IDX. Researchers who found that good corporate governance weakened the relationship between financial performance and firm value significantly, as found by (Latifah & Murniningsih, 2017) with the ROE variable, this was also supported by research results from (Putri, 2017). Likewise, as found by Aswar, (2019), Mariani & Rasmini, (2016); Pertiwi & Pratama, (2012); and (Akmalia et al., 2017). This study tries to reexamine the influence of financial performance on the value of the company with good corporate governance as a moderating variable (Maulana et al. 2016) in the case of food and beverage companies listing on the Indonesian stock exchange.

LITERATURE REVIEW

Good Corporate Governance was a concept based on agency theory. Good Corporate Governance was considered a tool to give investors confidence that they would get a refund of the money they had invested (Putri, 2017). In corporate governance, there were contract shareholders and company managers, how managers use shareholder funds, and how returns were shared between them (Jensen & Meckling, 1976). The manager or board of directors conduct effective supervision to reduce misallocation of funds, which had an impact on the welfare of shareholders and the value of shares, Isidro & Sobral, (2014), such effective supervision was also reviewed by Gillan, (2006) and (Karuna, 2009).

Jensen & Meckling (1976), states that one way to reduce agency conflict was by increasing share ownership by management. Meanwhile, Putra (2016) states that managerial ownership as a component of good corporate governance represents the principle of fairness (equality and fairness). The existence of a company share ownership by management, managers, and company owners would try to protect the rights of investors. This was because if there was a fraud that harms shareholders, the manager, as the owner of the company, would also suffer losses. Such matters were also informed by company management as part of corporate governance accountability.

Financial performance that operates well and becomes a financial reporting book value was a key factor that determines disclosures that affect investor reactions, Deswanto & Siregar (2018). Of course this had an impact on increasing company value as measured by increasing the value of company shares on the trading floor, Anastasia, (2012); Varaiya & Kerin, (2016); Davidson et al. (1987) and also Aggarwal & Padhan, (2017). Research that finds the same result or in other words, financial performance had an influence on the value of the company found by Qiu et al. (2016), supported by, Crisóstomo et al. (2011); Bartlett, (2012); Bachoo et al. (2013); and Kuzey & Uyar, (2017). Based on the description, the first hypothesis raised was :

H$_1$: Financial Performance of Market Value of Equity had an influence on the creation of firm value.

The ownership structure was an element that plays an important role in corporate governance (Denis & McConnell, 2003). The impact of this was the view that ownership by insiders could describe the process of creating firm value (Lee & Hwang 2012). Jensen & Meckling (1976) predict that ownership by people in the company affects the value of the company. The more dominant managerial equity ownership could help to align manager incentives with incentives from shareholders because managers bear wealth consequences directly from their decisions Lee & Hwang (2012) as well as findings from, Morck et al. (1988). Findings from Cho (1998) also shows that company value determines insider ownership, not vice versa.

A significant relationship between financial performance and company value would be seen if the company gets a maximum profit (Wijaya, 2015). A good financial performance of the company would had a high effect on company value. The welfare of stakeholders in the company was measured by the high of firm value (Santoso, 2017). Gunawan (2014) stated that agency conflict was able to had an impact on good corporate governance. *Good corporate governance* (GCG); essentially, the management of the company must be done properly and correctly. So that it was believed that good governance practices could be a moderating factor in the relationship between financial performance and firm value, Maulana et al. (2016) dan Retno & Priantinah (2012). Based on the description, the second hypothesis raised was:

H_{2a}: The higher share ownership of a company leader, the positive influence between financial performance on firm value would increase. Conversely, the lower of share ownership by the leadership of the company, the positive influence of financial performance on the firm value would decrease.

H_{2b}: The higher share ownership of a company institution, the positive influence between financial performance on firm value would increase. Conversely, the lower of share ownership by the company institution, the positive influence of financial performance on the firm value would decrease.

RESEARCH METHODS

The model developed in this study was to examine the effect of independent variables on the dependent variable and test the moderating variables between the Inde-pendent variables on the dependent variable. Test the direct relationship of the inde-pendent variables in this study, namely Financial Performance, which was proxied by Equity Market Value (MVE) with the dependent variable, that was, the Company Value proxied with tobinsQ.

The object of research was food and beverage companies that listed on the Indonesian stock exchange from 2008 to 2017, which meet strict purposive sampling criteria, companies that were listed consecutively on the stock exchange throughout the year, all data on variable elements in research were operationally fulfilled, and 50 observational data were compiled in times series, data was formulated in multiple linear regression with ordinary least square, using the SEM_PLS statistical tool. Ghozali (2012) said that SEM_PLS was a statistical method based on variants of SEM designed to complete multiple regression when specific data problems occur, such as small sample sizes, missing data, and multicollinearity The following was illustrated the basic framework of the research model.

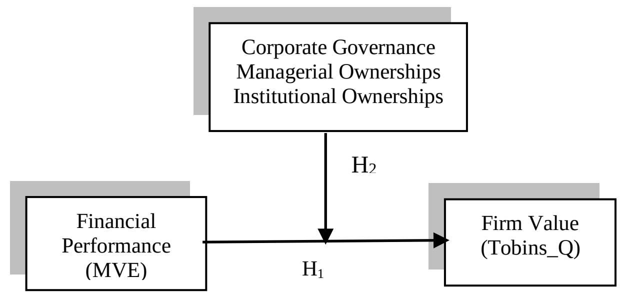


Figure 1. basic framework of the research model

ANALYSIS AND DISCUSSION

Designing the Inner Model

The goodness of fit model measured using R-square dependent latent variables with the same interpretation as regression. Q-Square predictive relevance for structural models, measure how well the observation value was generated by the model and also its parameter estimation. The R-square value> 0 indicates the model had opposite predictive relevance if the R-square = 0 value indicates the model had no predictive relevance. The results of the measurement of the inner model with PLS were as follows

Table 1. R Square

	R Square	Adjusted R Square
Y	0.634	0.610

Source: PLS SEM processing

From the R Square table above, the value of R Square was 0.634 Figures from the results of R Square. It could be explained that the effect of the Financial Performance variable (EMV) gives a value of 0.634, which could be interpreted that the latent dependent variable could be explained by an independent latent variable 63.4%, while 36.6% was explained by other variables outside the study. From these numbers, it could be categorized that the dependent variable could be explained by the independent variable with a medium scale. The Adjusted R Square value had a value between 0 and 1. If the Adjusted R Squared value approaches 1, then it shows that the independent latent variable (X) explains the variation in the latent dependent variable (Y) to be better. In this study, the value of Adjusted R Square was 0.610 or 61.00%. Then it could be concluded that 61.00% of the variations that occur in the Y variable could be explained by independent latent variables, while the rest could be explained by other variables.

Inner Model Evaluation

Evaluation was done by testing the suitability of the model, path coefficient, and R^2. In the model compatibility test, there were 3 test indices, namely the average path coefficient (APC), the average R-Squared (ARS) and the average variance factor (AVIF), with the APC and AVR criteria accepted with more p values < 0.05 and AVIF small than <= 5. The following table presents the results of the evaluation of data processing in the inner model :

Table 2. General Result

Model fit and quality indices			
Description	**PLS_Result**	**P_Value**	**Term**
Average path coefficient (APC)	0.341	P=0.002	
Average R-squared (ARS)	0.634	P<0.001	
Average adjusted R-squared (AARS)	0.610	P<0.001	
Average block VIF (AVIF)	1.307	Acceptable if <= 5, ideally <= 3.3	

Source: PLS-SEM processing

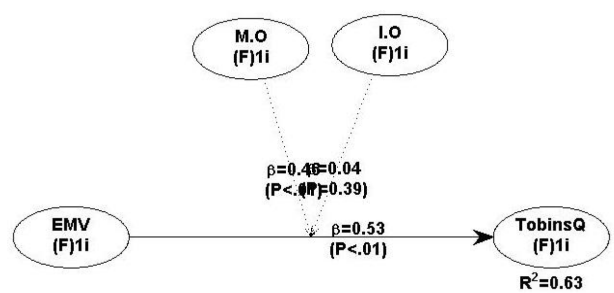
Based on this data, it could be said that the APC p-value was 0.002 and the ARS p-value was <0.001 and AARS was <0.001, which means that all three had values <0.05, so that the values of APC, ARS and AARS meet the requirements of the model fit. The AVIF p-value was 1307, and it was stated that it satisfies if AVIF <= 5 was the ideal value = 3.3, so the AVIF value meets the requirements of the Fit model. Thus it could be concluded that the model in this study meets the rules of model fit.

Hypothesis testing

In testing the hypothesis, the value analyzed was the value in the p-value generated from the PLS output, which was an estimate of the latent variable, which was a linear aggregate of the indicator. The hypothesis testing criteria with a significance level (α) of 5% were determined as follows:

a. If the p-value was <0.05, the hypothesis was accepted.
b. If p-value> 0.05, then the hypothesis was rejected.

The output of PLS Bootstrapping results to test the research hypothesis (H_1.d. H_2) was as follows :



Source: PLS-SEM processing

Figure 2. Research model

Based on figure 2. above, it could be shown in table 3. below:

Table 3. Path Coeficient and P Values

Path Coefficients			
Discription	**EMV**	**M.O*EMV**	**I.O*EMV**
Tobin's	0.528	0.456	0.041
P_Values			
Discription	**EMV**	**M.O*EMV**	**I.O*EMV**
Tobin's	<0.001	<0.001	0.386

Source: PLS SEM processing

Based on table 3., the above could be concluded that:

1. The first hypothesis, which states that Market Value Financial Performance from Equity influences the creation of firm value, was **accepted**. This could be seen from the

EMV P-Value value in the table above, which was <0.001 or p-value <0.05 and had a positive coefficient of 0.528.

2. The second hypothesis (a), which states that the higher share ownership by a company leader, the positive influence between financial performance on firm value would increase. Conversely, the lower the share ownership by the leadership of the company, the positive influence of financial performance on the value of the company would decrease, **accepted**. This could be seen from the value of P-Value M.O * EMV in the table above was equal to <0.001 or p-value <0.05, and had a positive direction coefficient of 0.456.
3. The second hypothesis (b) states that the higher the share ownership of a company institution, the positive influence between financial performance on firm value would increase. Conversely, the lower the share ownership by the company institutions, the positive influence of financial performance on the value of the company would decline, **rejected**. This could be seen from the value of P-Value I.O * EMV in the table above was 0.86 or p-value> 0.05, and had a positive coefficient of 0.041.

CONCLUSIONS

This study successfully proved that financial performance had an influence on the value of the company. In the case of research, this might support opinions from, Elliott & Elliott (2007), which states that openness to shareholders by companies and regulators regarding company risk management was a real thing to do. When viewed from the increasing market value of the company, this was in accordance with the statement, Nurdin & Kasim (2017) and also, Kuzey & Uyar (2017) which states that financial performance that gets a response from investors could be seen from the increasing market value of the company. While on the other hand, an increase in firm value as a result of the company's financial performance proves that the accountability of corporate performance to stakeholders had been well done, as stated by, Linsley & Shrives, (2006) and also, Lajili, (2009). While in the opinion of Agyei-mensah, (2016), this positive relationship proves that there was an effort to reduce asymmetrical information.

The management of sample companies in research at least in the accounting (financial) data used in this study states that what happens in agency agitation in their company had been able to surpass the contractual interests of shareholders and company managers, as stated by, Jensen & Meckling, (1976) how managers use shareholder funds, and how returns were shared between them fairly. The results of this study support the results of previous studies conducted by, Lorraine et al. (2004); Ramaswami et al. (2009); Crisóstomo et al. (2011); Iatridis, (2013); Bachoo et al. (2013); Qiu et al. (2014); Lu & Abeysekera, (2014); Sucuahi & Cambarihan, (2016); Qiu et al. (2016); Nurdin & Kasim, (2017); Setiawanta & Septiani, (2017) and Kuzey & Uyar, (2017).

Managerial share ownership in research was also proven to be a moderating variable of the effect of financial performance on firm value. This shows that the higher the share ownership by the company leader, the positive influence between financial performance on firm value would increase. This proves that the ownership of shares by company owners effectively influences or controls the financial performance of their companies so that they were trusted by investors as positive information and encourage their willingness to invest (Santoso, 2017). An ownership structure that had proven to play an important role in corporate governance, Denis & McConnell, (2003), as well, Jensen & Meckling (1976) which estimates that ownership by insiders could influence the firm value. These results prove that the board of directors plays a critical function and avoids excessive residual rights (Fama & Jensen, 1983). The impact could reduce misallocation of funds, improve shareholder welfare and share value, Isidro & Sobral, (2014), these conditions as an impact of effective direction, Gillan, (2006), and (Karuna, 2009). The results of this study support previous research conducted by Muliani & Yuniarta, (2014) for objects of state-owned companies on the Indonesian stock exchange. Likewise for the company object index 100 companies version of the compass newspaper by (Latifah & Murniningsih, 2017). This was reinforced by the results of previous research by, Widyaningrum, (2017), for companies registered with CGPI.

However, for the hypothesis that the higher share ownership by corporate institutions, the positive influence between financial performance on firm value would increase, not proven in this study. Although, Gunawan (2014) states that agency conflicts were capable of causing an impact on good corporate governance, but the impact had not been fully proven by institutional owners, even though the results of this study indicate a positive coefficient direction. This was suspect because institutional owners in supervising company management were not optimal because their presence in decision making was not as physical as individual owners who were also part of company management. The results of this study generally state that good corporate governance was not able to moderate the effect of financial performance on firm value supported by previous research (although the measurement of good corporate governance varies) was carried out by, Pertiwi & Pratama, (2012); Carningsih, (2009); Latifah & Murniningsih, (2017); Putri, (2017); Aswar, (2019); Marian & Rasmini, (2016); Pertiwi & Pratama, (2012); Maulana et al. (2016); and (Akmalia et al., 2017).

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