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Implication of Corporate Governance and Financial Performance on Firm Value

I Made Johan Wedia Putra
imjohan.wp@gmail.com
Faculty of Economic, Maranatha Christian University, Bandung, Indonesia

Seriwati Ginting
seriwati.ginting@maranatha.edu
Faculty of Art and Design, Maranatha Christian University, Bandung, Indonesia

Abstract

This study seeks to examine the implications of corporate governance and financial performance on firm value. The population selected are all companies that follow CGPI (Corporate Governance Preception Index) scoring held by IICG (The Indonesian Institute for Corporate Governance) in 2015-2018. Sampling of the research is purposive sampling with samples criteria are public companies participate in CGPI scoring and publish their financial statements on Indonesia Stock Exchange's website or publish on the official website of respective companies. The total population followed CGPI score was 137 companies, 55 of those are public companies and 5 samples are outlier data. The statistical test used in this research were descriptive statistics analysis and multiple regression analysis. This research results in findings that both simultaneously and partially there are implications for corporate governance and financial performance to firm value. Therefore, the implementation of corporate governance and financial information disclosure in companies is fundamental to realizing firm value.

Keywords: *CGPI; corporate governance; financial performance; firm value*

Abstrak

Penelitian ini berupaya untuk menelaah implikasi tata kelola dan kinerja keuangan pada nilai perusahaan. Populasi penelitian ini adalah seluruh perusahaan yang mengikuti pemeringkatan CGPI (Corporate Governance Perception Index) yang diselenggarakan oleh IICG (The Indonesian Institute for Corporate Governance) tahun 2015-2018. Metode pemilihan sampel menggunakan purposive sampling dengan krtieria pemilihan sampel yaitu perusahaan public yang mengikuti pemeringkatan CGPI dan mempublikasikan laporan keuangan pada webstie IDX maupun website resmi perusahaan. Total populasi sebanyak 130 perusahaan, 55 diantarnya merupakan perusahaan publik dan 5 diantaranya merupakan data outlier. Pengujian statistik diakukan menggunakan analisis statistika deskriptif dan analisis regresi berganda. Penelitian ini menghasilkan temuan bahwa baik secara simultan maupun parsial terdapat implikasi tata kelola dan kinerja keuangan terhadap nilai perusahaan. Maka dari itu, implementasi tata kelola dan keterbukaan informasi keuangan pada perusahaan merupakan hal fundamental untuk mewujudkan nilai perusahaan.

***Kata kunci**: CGPI; kinerja keuangan; nilai perusahaan; tata kelola*

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INTRODUCTION

The companies aims to have high firm value in the long-term (Retno & Priantinah, 2012; Sulastri & Nurdiansyah, 2017; Yendrawati & Adhianza, 2013). The higher firm value, of course, will also have implications for the increased prosperity of shareholders. In companies with medium to large scale, generally the control or management functions and company ownership are separated. Therefore, the owner often faces difficulties in ascertaining whether the control and management carried out by the manager or agent is in accordance. Something is expected by the owner known as agency conflict (Randy & Juniarti, 2013).

Still fresh in the memory of several cases of abuse of authority by individual management in implementing company resource corporate governance, thus harming shareholders. There are accounting scandals that occur in established companies such as Enron, WorldCom, Tyco, Kimia Farma, Bank Century, Garuda Indonesia and SNP Finance. They require an increase in the quality of professional internal monitoring on the implementation of corporate governance. In accordance with his nature, humans have a tendency to prioritize personal or self interests over the interests of others (self-interest behaviour). Therefore, this action can lead the company to decline price of the company's stock due to the damage to investor expectations regarding the rate of return obtained.

Agency theory explains conflicts that arise due to differences in interests when shareholders or owners delegate authority and responsibility to agents or management to provide services on their behalf (Jensen & Meckling, 1976). It is hoped that the implementation of good corporate governance will be the answer in overcoming the conflict of interest between the principal and the agent. The essence of corporate governance implementation is about fairness, transparency, and openness that is certain and adequate for all company stakeholders (Rusdiyanto et al., 2019). The existence of transparency and disclosure of information can also provide adequate confidence for investors and potential investors in their investment decisions (Nuswandari, 2009). In determining the investment decision, investors and potential investors cannot be separated from the measurement of financial performance (Tjandrakirana et al., 2014). Identifying the strengths and weaknesses of the company is the goal of financial statement analysis (Sudana, 2015).

Previous research has been done a lot, research by Klapper & Love (2004), Siallagan & Machfoedz (2006), Xiao & Zhao (2014), Hidayat et al., (2019) and Setiawan & Christiawan (2017) concluded that there is a positive influence on corporate governance to firm value. Contrary to these studies, research by Cahyaningtyas & Hadiprajitno (2015), Nuswandari (2009) and Sulastri & Nurdiansyah (2017) concluded that corporate governance has no effect on firm value. There is also a phenomenon that even though the company is a publicly traded company. The mechanism of majority share ownership and managerial control when combined, is still owned by trusted family or relatives and business partners. Likewise with the appointment of the company of supervisory board, the majority of the appointment of the board of commissioners is based on close relationships and family ties (Lukviarman, 2016). The novelty of this research is related to the use of the Corporate Governance Perception Index as an indicator of corporate governance implementation assessment which has not been widely used to predict corporate governance. So far, many studies have been conducted on corporate governance mechanisms using board of commissioner, audit committee, institutional ownership and managerial ownership variables.

Based on the phenomena and the research gap above made the author interested in conducting research about implications of the implementation of corporate governance and financial performance measurement on firm value. The especially companies listed on the IDX (Indonesia Stock Exchange). This research is expected to contribute to academia and

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business regarding the implementation of corporate governance, especially in public companies in Indonesia.

LITERATURE REVIEW

Agency Theory and Corporate Governance

Agency theory explains how the contractual liability structure between between the delegation of authority, duties, and responsibilities for managing the company and the party receiving the company management delegation. So, that the agent makes the best decisions for the company to maximize the welfare of the owner (Jensen & Meckling, 1976). This theory arises due to a conflict of interest between the manager and the owner which causes agency conflicts and problems. In addition, there is an assumption that management cannot be trusted and it causes agency costs.

Corporate governance is a mechanism for how the board of commissioners, board of directors, shareholders, and other company stakeholders (Agoes & Ardana, 2013). Corporate governance can also be called an openness process for determining company goals, how companies achieve them, and measuring performance.

Signaling Theory and Financial Performance

Signaling theory explains if information can be translated as positive or negative information for its users (Setiawan & Christiawan, 2017). Signal theory is the main reason why companies need to convey financial and financial information to external parties, to be used as a basis for making decisions (Zaidirina & Lindrianasari, 2015).

Financial performance is a set of decisions that are carried out repeatedly by an agent so that the company's stated goals can be achieved effectively and efficiently. Performance measurement is used by a company to develop its operational activities so that the company can remain competitive in its market and industry. Financial performance appraisal is a series of activities to review, measure, interpret, and provide decisions or solutions for companies (Hilman et al., 2014). Financial statements are the final result of a series of processes that are carried out repeatedly, namely the process of recording transactions that occur during the accounting year. Financial statements are prepared as a form of management accountability for the authority to manage company resources by the principal.

Firm value

Firm value is the investor's expectation of the company price when the company is sold (Husnan & Pudjiastuti, 2015). Firm value represents the expectations of investors and potential investors for the company and is often linked to the company's stock price.

The high value of a company will certainly be an expectation for owners or shareholders. The high firm value will definitely have an impact on the high prosperity of shareholders. In relation to the prosperity of shareholders, this has an impact on increasing firm value. It means, this can happen when the price of the shares it owns also increases. In other words, the price of shares transacted on the stock exchange is an indicator of firm value.

The Effect of Corporate Governance on Firm Value

Agency conflicts arise on the basis of a contractual liability between the principal and agent (Jensen & Meckling, 1976). The emergence of agency conflict between the principal and the agent is due to the possibility that the agent does not always act according to the willing of principal. So, that will lead to agency costs. It is hoped that the implementation of a corporate governance system in a company will be able to reduce agency conflicts.

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According to Lukviarman (2016), corporate governance can provide added value for companies because with the implementation of corporate governance, companies are expected to have maximum performance, and this will also contribute positively to the company's value. The main objective of establishing a corporation is to maximize firm value or firm value, this will be reflected in the company's stock price on the stock exchange. All companies certainly hope to achieve high firm value, so that they will maximize shareholder prosperity. In making investment decisions, both investors and potential investors need relevant and reliable information to determine their investment decisions. This information is required to be completed, accurate and timely to support rational decision making.

The implementation of corporate governance will certainly contribute to the achievement of firm value. Companies must provide assurance to the delegates of authority and responsibility for managing the company that the resources they invest have been allocated appropriately and efficiently for the owner. Setiawan & Christiawan (2017) reveal that with the presence of corporate governance implemented by IICG in the form of scoring CGPI, investors' expectations will arise that companies with high scoring results will have better corporate governance compared to companies with lower scoring. The following is the formulation of the first research hypothesis:

H_1: Corporate governance has positive effect on firm value.

The Effect of Financial Performance on Firm Value

In accordance with the signal theory, there are demands for companies in the transparency of financial information for external stakeholders. In order to suppress the information asymmetry that occurs, companies are required to disclose information, whether in the form of financial information or non-financial information. Financial reports are one of the main information for investors and potential investors in making investment decisions. Financial ratios and financial statement analysis are often used by investors and become the basis for assessing the feasibility of investing in a company. Of course, with a series of financial ratio assessments, investors and potential investors can assess whether the company has been operating effectively and efficiently.

Theoretically, a high share price is an implication of the company's good financial performance. The company's financial performance is a measure or indicator in evaluating the financial health condition of a company. Therefore, an increase in financial performance is an indication if the company has financially good and will also have positive implications for an increase in the company's stock price. In this case, a healthy company will make investors more trusting and more courageous in investing in the company (Irawan & Devie, 2017). According to the signaling theory, it explains that a clear signal will be given by the company and will be useful for stakeholder decision making. The following is the formulation of the second research hypothesis:

H_2: Financial performance has a positive effect on firm value.

The Effect of Corporate governance and Financial Performance on Firm value

The implementation of corporate govenance is also a signal that the company has operated in a transparent, responsible, independent and fair manner so that it will contribute to improving the company's financial performance. The implementation of corporate governance can provide benefit for the company's performance to be better with an increase in profit or rate of return. So, it creates trust and attractiveness for investors and of course will also increase firm value (Effendi, 2016)

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RESEARCH METHOD

Research Sample

The companies participating in the CGPI scoring for the 2015-2018 period organized by IICG are a characteristic of this study population. Meanwhile, the sample characteristics are the companies participating in the CGPI scoring in 2015-2018 organized by IICG, are companies listed on the Indonesia Stock Exchange and publish financial statements on the company's official website and the idx.co.id site. Based on the predetermined sample selection criteria, then the research population was obtained as many as 137 and a population that met the sample criteria were 50 samples.

Independent Variable

Corporate governance is the first independent variable of this study. The implementation of corporate governance is measured using the CGPI scoring, which is held annually by IICG and is officially published by SWA magazine. The aspects assessed in the CGPI corporate governance scoring are structures, processes and expenditures. The corporate governance structure is a completing of corporate governance structure and infrastructure with the aim of creating value for stakeholders. They are including indicators for shareholders, board of commissioners, directors, person in charge of functional management and indicators of other stakeholders. Corporate governance process is the effectiveness of the system and mechanism of corporate governance in creating value for stakeholders in accordance with the principles of corporate governance. They include corporate governance of the fulfillment of shareholder rights and *RUPS*, corporate governance of the board of commissioners and directors, organizational behavior, internal and external oversight, disclosure and information, management, risk and compliance, business ecosystem and resource. Corporate governance outcome is the quality of outcomes, results, impacts and benefits of corporate governance for the purpose of creating value for stakeholders. They have accordance with the principles of corporate governance, including business, financial, and business ecosystem performance indicators. Weighting on the aspect of corporate governance implementation assessment is 34.73% corporate governance structure, 32.13% corporate governance process and 33.14% corporate governance outcome. The results of the assessment are divided into three assessment norms, namely a score of 85-100 is categorized as a very trusted company, a score of 70-84 is categorized as a trusted company and a score of 55-69 is categorized as a fairly trusted company.

The next independent variable is financial performance as measured by profitability. Profitability is a set of decisions that are carried out repeatedly by agents so that the company's scheduled goals can be realized effectively and efficiently (Brigham & Houston, 2014). According to Sudana (2015), the profitability ratio assesses the capability of a company to gain profits by use resources in the form of assets, equity and company sales. Financial performance is an indicator in measuring the achievement of goals to realize the company's vision and mission in a period. Financial performance using the proxy return on assets (ROA) is used as the second independent variable. ROA shows the company's capability in using assets in the form of company assets to generate profits.

$$ROA = \frac{Net\ income\ after\ tax}{Total\ Aset}$$

The return on asset ratio is needed by management and investors to evaluate the

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effectiveness and efficiency of management in company asset corporate governance. The greater the ROA value, it means the more efficient use of company assets. This also means that with the same number of assets, the company is able to generate higher profits.

Dependent Variable

The dependent or independent variable used is firm value or firm value. Firm value represents management's achievement in creating the company's market value, which is reflected in the company's stock price on the stock exchange floor. Firm value is measured using Tobin's Q ratio (Black et al., 2006; Klapper & Love, 2004). Tobin's Q calculation is formulated as follows:

$$Tobin's\ Q = \frac{Market\ Value\ of\ Equity + Debt}{Total\ Asset}$$

Market value of equity is the result of multiplying the closing stock prices at the end of the year and the outstanding shares.

Techniques aimed at obtaining regression equations and providing estimates are known as regression analysis (Sunjoyo et al., 2013). The coefficients of the independent variables are the output of the regression analysis. The coefficients are obtained through equations with the prediction of the dependent variable. The regression coefficient aims to minimize the deviation of the actual value and the estimated dependent variable and optimize the correlation between the actual value and the estimated dependent variable (Kuncoro, 2018). The accuracy of the regression equation model in estimating the true value can be measured by means of the determination coefficient, statistical significance F and statistical significance t.

The multiple regression research model is as follows;

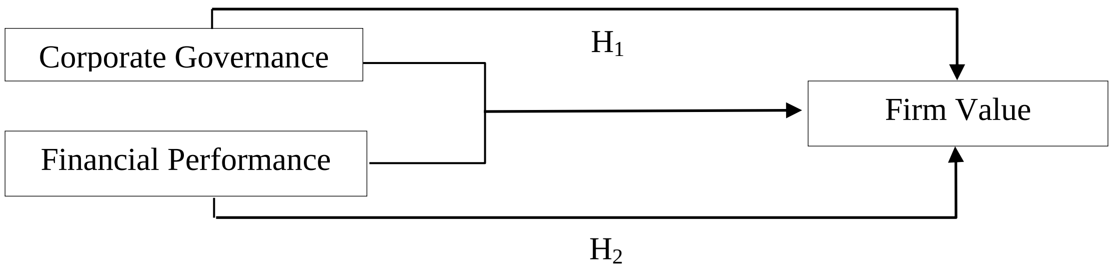

Figure 1. Model of Research

The following is the regression equation for the research model above:

$$Tobins'q = a + b_{CGPI}X_{CGPI} + b_{ROA}X_{ROA} + e \quad (1)$$

Where:
CGPI = *Corporate Governance*
Tobins'q = Firm value
ROA = Financial performance
a = constant
b = regression coefficient

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RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistics analysis in Table 2 shows that the observed sample was 50 samples. The corporate governance independent variable projected by CGPI has a mean value of 86.3 and a standard deviation of 4.83733. The weighting of the results of the assessment is divided into three assessment norms, namely a score of 85-100 is categorized as a very trusted company, a score of 70-84 is categorized as a trusted company and a score of 55-69 is categorized as a fairly trusted company. This condition shows that the average application of corporate governance in the sample 2015 to 2018 is categorized as a trusted company. Likewise, the standard deviation of 4,83733 means that the average variation of the research sample companies is small, namely 5.5% when compared with the average. A low or small standard deviation indicates that most of the study sample has a value close to the average value.

Meanwhile, return on assets has a mean value of 0.0426 and a standard deviation of 0.05014. This shows that the average sample company has a positive return of 4.3% in the 2015 to 2018 reporting period. Likewise, the standard deviation of 0.05014 means that the average variation of the research sample companies is quite large, namely 1.27 when compared to the average. A high standard deviation indicates that the high variation and distribution of data do not approach the average. This is because the sample firms consist of various company sizes and in different industrial sectors.

Table 2 Descriptive Statistics Test Results

		CGPI	TOB	ROA
N	Valid	50	50	50
	Missing	0	0	0
Mean		86.3036	1.2173	.0426
Std. Deviation		4.83733	.40520	.05014

Information:
CGPI : Corporate Governance Perception Index
TOB : Tobin's Q
ROA : Return on Asset

Source: IBM SPSS output reprocessed

The dependent variable that is showed by Tobins'q has a mean value of 1.2173 and a standard deviation value of 0.40520. The Tobin's q value of a company is considered high or overvalued when it has a value greater than 1, while it is considered undervalued when the value is less than 1. This indicates that the firm's value is valued higher than book value or overvalued. Based on the results of descriptive statistical testing, it was found that the average value of the sample companies valued by the market was 1,217 greater than the book value. Likewise, the standard deviation of 0.40520 means that the average variation of the research sample companies is quite small, namely 33% when compared to the average. A low standard deviation means that if most of the sample is close to the mean value.

Research Model Regression Equations

Based on the statistical testing of the regression model that has been carried out, the regression equation is obtained in Table 5 as follows:

$$\text{TOBIN'S Q} = \alpha + \beta_1\text{CGPI} + \beta_2\text{ROA} + e \; (2)$$

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$$\text{TOBIN'S Q} = -0.250 + 0.014\text{CGPI} + 6.650\text{ROA} + e$$

Based on the multiple regression equation above, it is known that if the value of constant is -0.250, this means that corporate governance is not implemented and information is not available about the company's financial performance, then the firm value using the Tobin's q proxy will decrease by 0.25. This is in line with the agency theory that without the implementation of corporate governance mechanisms agency cost will increase. It means that will be responded by the market through a decrease in stock prices. Likewise, with return on assets, in line with the signaling theory that without information disclosure to external parties. It means, the investors will tend to close themselves off and choose not to invest in a company which leads to a decline in the company's stock price. The CGPI beta coefficient is 0.0014, meaning that if the CGPI scoring increases by one unit, then the change in firm value proxied by Tobins'q also increases by 0.014. Then, the beta ROA coefficient of 6,650 means that if the rate of return on assets (ROA) increases by 1%, the change in firm value increases by 6,650.

Goodness of Fit Research Model

The accuracy of a regression model to predict the true value can be measured through coefficient determination, F statistics and t statistics (Ghozali, 2018). The coefficient of determination estimates the capability of the research model to explain changes or variances in the dependent variable. From the results of statistical tests carried out in table 3, it was found that the Adjusted R Square value was 0.678 or 67.8%. This means that changes in firm value can be explained by changes in the two independent variables, namely corporate governance and financial performance of 67.8%. Meanwhile, the difference of 32.2% can be explained by elements other than elements in the research model. Meanwhile, the value of std. The estimate error is 0.2300, the small standard error of estimate value indicates that the model's ability to predict the dependent variable is more accurate.

Table 3. Results of Testing the level of Influence

Model	R	R^2	Adj R^2	Std.Error Estimate	DW
1	.831[a]	.691	.678	.23000	2.011

Predictor: ROA, CGPI
Dep. Variable: TOB
Source: IBM SPSS output reprocessed

Simultaneous Model Significance Analysis (F-test) was used to test the significance of the regression coefficient simultaneously. Based on table 4, it can be seen that the significance value of F test is 0.000, it means that significance value is less than the 5% error rate. Likewise, when viewed from the F_count value of 52,542, it is greater than the F_Tabel of 3.18. All types of changes in the dependent variable caused by changes in the independent variable are appropriate to be explained by the research model. This indicates that at an error rate of 5%, the independent variables (corporate governance and financial performance) can simultaneously influence the dependent variable, namely firm value. Therefore, in assessing the stock price of a company, investors and potential investors can use corporate governance and firm value in determining investment decisions and predicting the value of a company.

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Table 4. Simultaneous Effect Test Results (F-test)

Model	Sum of Square	df	Mean Square	F	Sig.
Regression	5.559	2	2.779	52.542	.000[b]
Residual	2.486	47	.053		
Total	8.045	49			

Dep. Variable: TOB
Predictor: ROA, CGPI
Source: IBM SPSS output reprocessed

Analysis of the significance of the Partial Model (t-test) was used to test the regression coefficient partially and its significance. Based on the partial testing that has been carried out, the significance values for the two independent variables (CGPI and ROA) are 0.049 and 0.000, respectively. This proves that the independent variables, namely corporate governance and ROA, have a positive effect on TOB. This means that each increase in corporate governance and financial performance can contribute to an increase in firm value. The CGPI beta coefficient is 0.0014, meaning that if the CGPI scoring increases by one unit, then the change in firm value proxied by Tobins'q also increases by 0.014. Then, the ROA beta coefficient of 6,650 means that if the rate of return on assets (ROA) increases by 0.001, the change in firm value increases by 6,650.

Table 5.Partial Effect Test Results (t-test)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.250	.590		-.423	.674
CGPI	.014	.007	.164	2.017	.049
ROA	6.650	.656	.823	10.137	.000

a. Dependent Variable: TOB
Source: IBM SPSS output reprocessed

Implications of Corporate Governance on Firm value

According to the statistical test output attached to table 5, it can be seen that CGPI has a positive effect on TOB with a beta coefficient value of 0.014 and a significance of 0.049, which is smaller than the 5% error rate. The interpretation of the results of the statistical test is that there is a positive and significant effect of corporate governance using the CGPI proxy on firm value. Changes in CGPI scoring for a unit increase have implications for an increase in firm value (Tobin's Q) of 0.014. With the implementation of corporate governance in the company, it can reduce the potential of agency conflicts that can reduce firm value (Xiao & Zhao, 2014). The essence of corporate governance implementation is about fairness, transparency and fairness that is certain and adequate for all company stakeholders. The implementation of corporate governance is seen as a signal by investors to invest or invest in companies. If the number of investors who place their trust in the company increases and is interested in investing their capital, the investor's confidence will be followed by an increase in stock demand which will also contribute to an increase in stock prices (Halim & Christiawan, 2017). The results of this research are also in line with the research of Kandukuri et al., (2015), Retno et al., (2012), Suryaningtyas & Rohman (2019), Halim &

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Christiawan (2017) and Randy & Juniarti (2013) which state if there is an influence positive corporate governance at firm value.

Implications of Financial Performance on Firm Value

According to the statistical test output attached to table 5 of partial test results, it can be seen that ROA has a positive effect on TOB with a beta coefficient value of 6,650 and sigfnicance is 0.000 worth less than 5% error. The interpretation of the results of the statistical test is that there is a positive and significant effect of financial performance as proxied by return on assets at firm value. Changes in the value of return on assets every 1% increase have implications for an increase in firm value (Tobin's Q) of 6,650. Financial statements are one of the essential information for investors in determining their investment decisions (Anggitasari & Mutmainah, 2012; Wardoyo & Veronica, 2013). Market reactions that are reflected in fluctuations in stock prices are a sign that the financial statements contain information that affects the decision making of investors and potential investors. The high ROA value as a measure of financial performance will be followed by an increase in the demand for company shares. In addition, it also contributes to an increase in stock prices. The greater the company's profits, the more investors will be interested in investing. The results of this research are consistent with the research of Mahendra et al., (2012), Suryaningtyas & Rohman (2019) and Yendrawati & Adhianza (2013) which states that profitability partially has a positive effect on firm value.

Implications of Corporate Governance and Financial Performance on Firm value

According to the statistical test output presented in table 4, it can be seen that CGPI and ROA have an effect on TOB with a sigifnicance is 0.000. When compared between the significance value and α = 5%, then the significance is lower than the error of 5% and the value of F_{count} is 52,542 higher than F_{table}. The interpretation of these statistical results is that there is a simultaneous effect of corporate governance and financial performance on firm value.

Theories in finance focus on how to optimize shareholder wealth. This normative objective can be achieved by maximizing the company's stock price (market value of the firm). The main objective of implementing corporate governance mechanisms is to safeguard transparency and openness of business by agents and align agent interests to increase value for all stakeholders. Corporate governance can improve monitoring of agent actions which are opportunistic in nature and reduce the risk of information that shareholders should know (Rebecca & Siregar, 2012). The published CGPI scoring is able to attract the interest of stakeholders and of course will be responded by the market. A high CGPI scoring indicates that the company is getting more trustworthy and of course an investment attraction. The high interest of investors in a company's shares will automatically increase the stock price. The high stock price certainly has implications for the increasing prosperity of shareholders and also becomes an attraction for them to invest.

On the other side, the company's operating performance as measured by the company's financial performance is also the main indicator for investors and potential investors in investing. The disclosure of financial information through financial reports is a fundamental thing that companies must fulfill if they are to remain competitive. Investors as investors are of course very careful in implementing investment decisions with a series of performance measurements and financial ratios. Profitability in measuring financial performance is a major indicator for investors in investing. In general, the motivation of every investor in investing is to obtain capital gains and dividends. According to Horne & Wachowicz (2017), investors are generally interested in current and future income as well as the stability of earnings in a trend. Profitability is related to the company's ability to pay returns / dividends

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for shareholders, in this case a large and stable rate of return is an attraction for investors to invest in the company.

Research by Mahendra et al., (2012), and (Yendrawati & Adhianza, 2013) states that there is a positive effect of financial performance on firm value. Also, found inconsistencies or research gaps from the results of research on the effect of financial performance on firm value by Tjandrakirana et al., (2014), Hermawan & Maf'ulah (2014) and Anggitasari & Mutmainah (2012). This may occur due to other factors outside the research model that also have an influence on the dependent variable such as firm size and firm growth. Meanwhile, other research that is in line with the results of research is research conducted by Wardoyo & Veronica (2013) which states that corporate governance through the measurement of the board of directors has a significant effect on firm value, research by Fintreswari & Sutiono (2017) states that good corporate governance through the proxy for the number of the board of directors has a significant and significant effect on firm value. That was the same as research by Suryaningtyas & Rohman (2019) which states that there is an influence of corporate governance and financial performance on firm value. Nuswandari's (2009) study concluded that there is a positive and significant effect of corporate governance on firm value..

It can be concluded that any information received by investors will be responded to through stock price movements. The implementation of corporate governance is seen as a positive signal for investors because it will create added value for the company. Likewise, the availability of financial information is used as the basis for making investment decisions. The availability of accurate, timely, relevant, and reliable information is a positive signal that the market will respond to with an increase in stock prices. Contrary to the results of this research, research conducted by Zaidirina & Lindrianasari (2015) states that there is no influence of corporate governance on firm value in the 2007-2011 observation period. This may occur due to distortion in the distribution, namely in the 2008 observation period which was a global financial crisis, this must have an impact on the firm value proxied by Tobin's Q because it takes into account the variables of share prices and liabilities that are vulnerable to the impact of the financial crisis. Similar to research by Nuswandari (2009), corporate governance does not affect firm value through market performance because there is a possibility that the CGPI scoring results will not be immediately responded by the market. There is a tendency that the effect of new corporate governance is responded to in the long run because it relates to investor confidence.

CONCLUSION

Based on statistical tests that have been carried out simultaneously and partially, all independent variables, namely corporate governance and financial performance, have a positive effect on firm value. In line with the agency theory and signaling theory, the results of the research prove that without the implementation of corporate governance and financial performance, the company's value will decrease. This can occur because with the implementation of a corporate governance mechanism the cost of agency will decrease and the market responds to this condition through an increase in share prices. Likewise with return on assets that with the disclosure of financial information to external parties, rational investors will obtain adequate and useful information for making investment decisions. This will also be reflected in the increase in stock prices.

Issuers should always prioritize the principles of responsibility, fairness, independence, transparency and accountability. With the implementation of good corporate governance, it will certainly foster a sense of investor confidence in the company. Likewise, the disclosure of financial information to external parties, both through financial reports and the GMS,

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should also be a source of information for investors in making decisions. Financial Services Authority (*OJK*) as an institution that carries out regulatory, supervisory and protection functions of the capital market is also very much needed to guard the capital market in Indonesia.

We knew that there are limitations to this study, particularly regarding the study population. The population in this study are the companies that follow the CGPI scoring organized by the IICG. However, not all public companies follow the CGPI rating because it is voluntary. The observation period in this study was four years. However, it will be better if the observation period in order to obtain more comprehensive and representative results regarding the implementation of corporate governance, financial performance and firm value in Indonesia. The corporate governance variable in the next research can use the corporate governance mechanism as a research variable and the financial performance variable in the next research can use ROE (return on equity). Furthermore, variations in changes in firm value through stock prices on the capital market are not always influenced by corporate governance and firm value. There are other factors like the presence of economic, social and political information received by investors and reflected in changes in the company's stock price. It means, the further research can also use economic, social and political variables in examining firm value.

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