Article

How Do Good Corporate Governance and Financial Performance Affect the Value of State-Owned Enterprises?

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Abstract: This study examines the effect of good corporate governance and financial performance on the value of state-owned enterprises (SEOs). The population of this study was all companies listed on the Indonesia stock exchange, with a sample of 20 SEOs companies in 2015-2019. The independent variables in this study were Good Corporate Governance with the Independent Board of Commissaries and the Audit Committee and financial performance with the Return on Equity proxy. The dependent variable in this study was the value of SEOs with the price to book value proxy. Hypotheses were tested using SPSS 21.0 software, and data were analysed using multiple linear regression tests. This study found that the Independent Board of Commissaries had a negative and significant effect on the value of SEOs; Audit Committee had a positive and significant effect on the value of SEOs. On the other side, ROE has a negative and insignificant effect on the value of SEOs.

Keywords: Audit Committee, Good Corporate Governance, Independent Board of Commissaries, Return on Equity, State-Owned Enterprises

1. Introduction

The business world has grown rapidly and is undergoing a continuous transformation in the 21st century. Thus, every company must compete fiercely. The company must implement an excellent and appropriate strategy to successfully run the business, as indicated by the increase in company value. The investor mostly notices company value because it is associated with stock prices. High stock prices indicate high company value. Therefore, maximising the company's value is vital since it can prosper the shareholders and attract investors to that certain company (Khalim, 2018). To increase company value, the company can apply many strategies, such as implementing Good Corporate Governance (GCG). GCG must

create an efficient, transparent, and sustainable market based on laws and regulations (Zarkasyi, 2008). Implementing GCG can improve financial performance, which impacts increasing company value and probability of investment.

Good Corporate Governance has a vital role in minimising conflicts of interest that are often experienced within the companies, such as the dissimilarity between management and investors. The conflict can be prevented by emphasising the legal and ethical aspects to encourage the growth of the company's performance. Essentially, GCG is the balance between the actions and decisions of the company leader based on five main company principles: fairness, transparency, accountability, independence, and responsibility (Susanti, 2008). These principles are also mentioned in the Decree of the Minister of State-Owned Enterprises Number: kep-117/M-MBU/2002. It concerns the implementation of GCG practices within State-Owned Enterprises (SEOs) companies. In this regulation, SEOs are required to implement GCG consistently and/or use it on an operational basis. It is very important since SEOs are the vital elements that can affect the Indonesian economy, so they must take comprehensive steps towards their assets to generate profits to increase company value and the nation's economy (Setyaningsih, 2019).

Good Corporate Governance in this study is a proxy for the Independent Board of Commissaries and the Audit Committee. An independent commissioner is a party from outside the company that mediates between the company leader and the employee. In addition, independent commissioners have the right to supervise the management policies and provide useful input and recommendations to company management, if necessary (Yosephus et al., 2020). Hidayat et al. (2021), Sari & Sanjaya (2018) and Zhang et al., (2020) reported that the Independent Board of Commissaries had a positive and significant effect on company value. On the other side, Prasetyo et al. (2020) and Widianingsih (2018) reported that the Independent Board of Commissaries had a negative and insignificant effect on company value. The higher the audits, it is indicating the higher the company quality report, thus leading to a better monitoring rate by the company management.

Theoretically, Audit Committee is responsible for supervising the performance of the board of commissioners and improving the information flow between shareholders and managers. This responsibility prevents and lowers company issues and will increase company value (Widianingsih, 2018). However, in real-life practices, the role of the Audit Committee is lacking in supervising and controlling the company, which can increase the company's problems and decrease its value (Sari & Sanjaya, 2018). Azaria & Muslichah (2021) reported that the Audit Committee had a positive and significant effect on the value of SEOs, while Hidayat et al. (2021) and Prasetyo et al. (2020) reported that the Audit Committee had a negative and significant effect on the value of SEOs.

Not only GCG, but financial performance also impacts company value (Pertiwi & Pratama, 2012). Financial performance is a vital indicator to measure the company's performance based on its financial reports. The financial report contains company information, including vital financial statements to interested parties. Many investors assess financial performance through financial ratios calculated from the company's financial reports, such as the profitability ratio. The financial performance calculation in this study used the profitability ratio of the Return on Equity (ROE) proxy. That ratio is used to calculate the ability of the company's capital to generate profits and the profits for all shareholders, both ordinary and preferred shares. The higher ROE value indicates the company's ability to generate high shareholder profits (Berliani & Riduwan, 2017). Hidayat et al. (2021) and Sari & Sanjaya (2018) reported a positive and significant effect of ROE on company value. Prasetyo et al. (2020) reported that there was no effect of ROE on company value. Initiated by the dissimilarity reports from previous studies, this study aims to add empirical evidence regarding the influence of GCG and financial performance on the value of SEOs. This study aims to analyse the effect of good corporate governance and financial performance on the value of State-Owned Enterprises during the 2015-2019 period.

2. Literature Review

2.1. Underpinning Theory

Agency theory explains the relationship between principles and agents. (Jensen & Meckling, 2019) define this as a relation in which the principal employs an agent to help manage the company. The agreement between the principal and the agent becomes the basis for cooperation. The principal grants the authority to the agent to make decisions and is obliged to provide a report to the principal as an act of responsibility. Investors are often observing the value of SEOs companies before investment it is associated with stock prices. Higher stock price makes the value of SEOs higher, which increases the high shareholder potential (Sarafina & Saifi, 2017). Price to Book Value (PBV) is a ratio used to calculate the value of

management and organisation of the company based on the market view, indicating that the company is growing. The higher PBV ratio indicates that the market has high trust (potential) in the company's prospects. The high PBV will also affect investor trust and potentially gain the company's shared values.

Good Corporate Governance is a method to be applied within the company to produce maximum value based on the applicable Government Financial Law (Sutedi, 2011). The principles of GCG are transparency and accountability, aiming to improve the company's welfare which can gain investigation and increase the company's value. By implementing GCG, companies can create efficient, transparent, and consistent market conditions following the law. Three interrelated parties support GCG: the country as a regulator, the business sector as a market participant, and the public (society) as consumers/users of the products/services (Ben Ltaief et al., 2019; Hidayat et al., 2021).

2.2. Hypotheses Development

According to Putri & Dewi (2019), independent commissioners from outside the company (not affiliated with the company) who are selected transparently and independently have sufficient integrity and are compatible. Independent commissioners can act objectively and independently based on the principles of GCG (transparency, accountability, responsibility, fairness). The function of independent commissioners is to create an objective, independent, and fair work environment. The independent commissioner also provides a balance between the interests of majority shareholders, the protection of minority shareholders, and the interests of other stakeholders as well as the interest of the whole company (Rahmawati & Handayani, 2017). The number of independent commissioners ensures that the supervisory management applies effectively and lawfully. Independent commissioners also support the implementation of GCG implementation in a company. Hidayat et al. (2021), Sari & Sanjaya (2018) and Yosephus et al (2020) reported that more Independent Boards of Commissioners (IBC) in a company provide higher supervision of management behaviour and performance leads to higher company value. In addition, the existence of an IBC can reduce company conflicts within and focus on efforts to increase company value.

H1: The independent boards of commissioners have a positive and significant effect on the value of State-Owned Enterprises

The Audit Committee is a group elected by the company's board of commissioners. They are responsible for assisting auditors in maintaining independent work from company management. The Audit Committee (AC) is responsible for protecting the interests of minority shareholders. The goal is to convince investors to trust their funds in the company. The AC plays an important role in maintaining the integrity of the process of preparing the financial report and maintaining corporate control to prevent management conflicts. AC that reviews the company's internal control system can prevent fraud and opportunistic adverse behaviour by management. Therefore, the company can run effectively and efficiently (Hidayat et al., 2021). The AC will ensure the achievement of company performance in a transparent business environment (Hidayat et al., 2021; Sari & Sanjaya, 2018; Widianingsih, 2018; Yosephus et al., 2020).

H2: The Audit Committee has a positive and significant effect on the value of State-Owned Enterprises

Investors will assess the company's financial performance through financial ratios, one of which is profitability. High profitability indicates the company's ability to generate high profits for shareholders. Therefore, a high profitability ratio will attract investors. According to Sudana, (2011), the profit value will affect the company value. Therefore, there will be a positive relationship between profitability and stock prices. The higher the stock price, the higher the company value. (Hidayat et al., 2021) and (Sari & Sanjaya, 2018) reported that profitability calculated based on Return on Equity (ROE) has a positive and significant effect on the company value. The ROE ratio that increases from year to year indicates an increase in the net profit of the company which determines the company's value and shares (Berliani & Riduwan, 2017).

H3: Return on Equity has a positive and significant effect on the value of State-Owned Enterprises

2.3. Theoretical Framework

On the basis of some theories presented previously and the variations in some research results, the research framework is presented in Figure 1.
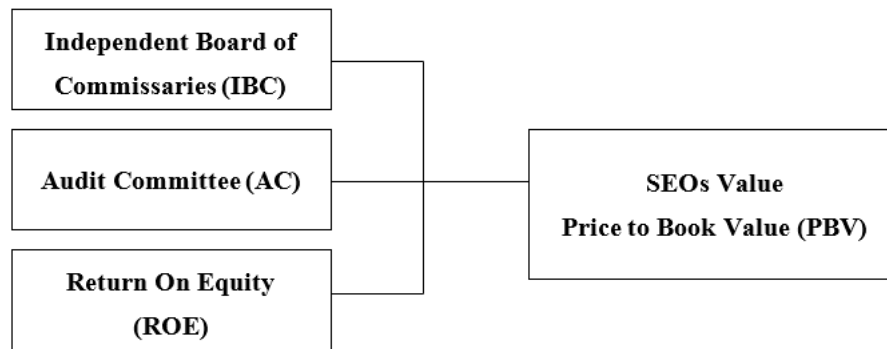
International Journal of Global Optimization and Its Application
Vol. 1, No. 3, September 2022, pp.215-222.

218

Figure 1. Theoretical Framework

3. Materials and Methods

This research was quantitative research that used secondary data obtained from annual reports. The research population was all companies listed on the Indonesia Stock Exchange with a sample of 20 State-Owned Enterprises companies during 2015-2019. The independent variables used in this study were Good Corporate Governance with the proxy of the Independent Board of Commissaries and the Audit Committee and financial performance with the proxy of Return On Equity. The dependent variable was the State-Owned Enterprises value with a price to book value proxy.

Table 1. Measurement of Research Variables

Independent Board of Commissaries	NIC divided by NMBC
Audit Committee	NAC
Return On Assets	EAT divided by TA
Price to Book Value	PS divided by BVP

Note: NIC = Number of independent commissioners; NMBC = Number of members of the board of commissioners; NAC = Number of audit committee; EAT = Earnings After Tax; TA = Total Assets; PS = Price per share; BVP = Book value per share.

4. Results

4.1. Classical Assumption

The classical Assumption statistical test was to determine whether the regression equation was accurate to interpret the estimation, unbiased, and consistent.

4.1.1. Normality Test

The normality test was to calculate whether, in the regression model, the confounding, or residual variables have a normal data distribution. In this study, data were statistically analysed using the Kolmogorov-Smirnov method.

Table 2. Normality Test (N = 100)

		Unstandardised Residual
Normal Parameters[a,b]	Mean	0.000
	Std. Deviation	1.241
	Absolute	0.108
Most Extreme Differences	Positive	0.108
	Negative	-0.065
Kolmogorov-Smirnov Z		1.083
Asymp. Sig. (2-tailed)		0.191

The normality test based on the One-Sample Kolmogorov Smirnov Test obtained Asymp. Sig. (2-tailed) on the unstandardised residual was 0.191 (>0.05). Those indicating the variables were normally distributed.

4.1.2. Heteroscedasticity Test

The heteroscedasticity test was intended to determine whether there is a regression inequality of variance from the residual within the observation. Based on the scatterplot graph analysis, it was obtained that the plot spreads randomly above and below zero on the Studentized Residual Regression axis. This indicates that there was no heteroscedasticity in the data.
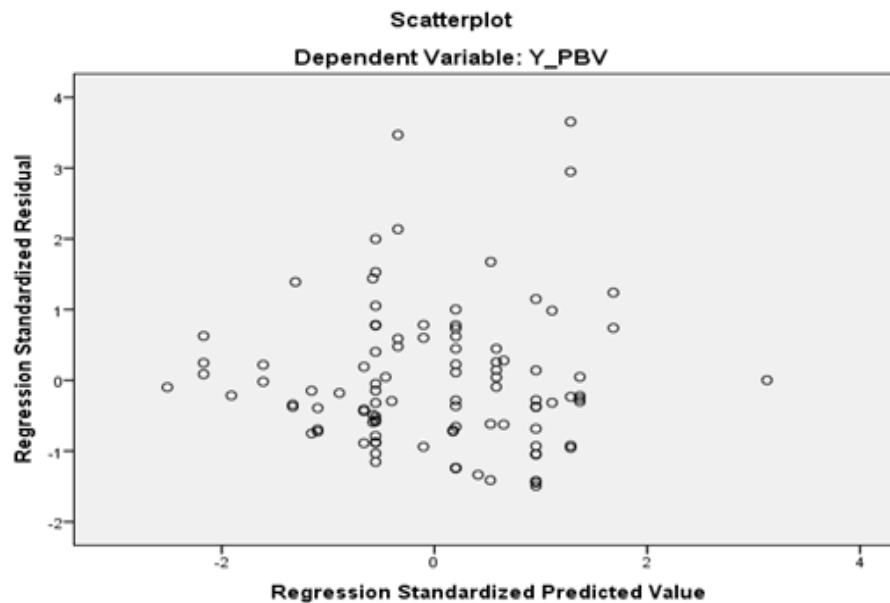

Figure 2. Heteroscedasticity Test

4.1.3. Multicollinearity Test

The multicollinearity test aimed to find a correlation between independent variables in the regression model. This study used a multicollinearity test with TOL (Tolerance) and VIF (Variance Inflation Factor). The TOL values for variables X1_IBC, X2_AC, and X3_ROA were 0.783, 0.775, and 0.988, respectively (>0.10) and the VIF was 1.278, 1.290, 1.012, respectively (<10). In this regression model, there is no indication of a multicollinearity case.

Table 3. Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
X1_IBC	0.783	1.278
X2_AC	0.775	1.290
X_ROE	0.988	1.012

4.1.4. Autocorrelation Test

The autocorrelation test aimed to examine the correlation between the confounding error in period t and the confounding error in period t-1 (previous period). Durbin-Watson autocorrelation test obtained a value of 1.875. In this study, the number of independent variables was 3 (k=3) and the amount of data was 100 (n=100). Based on the calculation, the value of dL=1.6131, dU=1.7364. The Durbin-Watson value applies du<d<4-du, therefore, the value of 1.7364<1.875<2.2636 can be interpreted that the regression equation model had no positive or negative autocorrelation.

Table 4. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.346[a]	0.120	0.092	0.99648	1.875

4.2. Multiple Linear Regression

Multiple linear regression analysis aimed to determine the presence or absence of the influence between the independent variable and dependent variable. The t-test was conducted to determine the significance of the relation between the independent variable and the dependent variable. The results of multiple linear regression analysis get the following equation: $\hat{Y}=1.681–2.526\ X1+0.234\ X2–0.001\ X3$. This equation means that the Audit Committee has a positive effect, while the Independent Board of Commissioner and Return On Equity have a negative effect on the value of SEOs.

Table 5. Multiple Linear Regression Analysis

	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.681	0.536		3.133	0.002
X1_IBC	-2.526	1.265	-0. 223	-1.996	0.049
X2_AC	0.234	0.118	0.224	1.992	0.049
X_ROE	-0.001	0.001	-0.089	-.898	0.371

Table 5 displays that the Independent Board of Commissioner and Audit Committee have a significance value of 0.049 (<0.05), so H0 was rejected. This means that the Independent Board of Commissioner and the Audit Committee have a significant effect on the value of SEOs. ROE has a significance value of 0.371 (>0.05) so H0 is accepted, indicating that ROE had no significant effect on the value of SEOs.

5. Discussion

This study revealed that the Independent Board of Commissioners had a negative and significant influence on the value of State-Owned Enterprises listed on the Indonesia Stock Exchange for 2015-2019. A similar result was also reported by Ferial et al., (2016). This result indicates that the more people held the responsibility of commissioners, there will be more opinions, intervention, coordination difficulties, and communication difficulties between commissioner members (Fintreswari & Sutiono, 2017). Too many commissioners can reduce the company's performance due to those difficulties. The Audit Committee has a positive and significant impact on the value of State-Owned Enterprises listed on the Indonesia Stock Exchange for 2015-2019. Azaria & Muslichah (2021) and Rahmawati & Handayani (2017) also reported a similar result. This result indicates that the Audit Committee provides more assurance that the company's performance will be better. The market will more trust the company and the products if the company's value increases. In addition, Audit Committee is capable to supervise financial reports and internal financial controls that increase the company's credibility with investors. Return On Equity has a negative and insignificant effect on the value of State-Owned Enterprises listed on the Indonesia Stock Exchange for the 2015-2019 period. Prasetyo et al. (2020) also reported a similar result. This finding indicates that the profitability of state-owned companies does not guarantee an increase in the value of the company. The company must improve their prospect and activities to be more productive.

6. Conclusion

This research empirically investigates the influence of Corporate Governance and financial performance on the value of State-Owned Enterprises. This study finds that the Independent Board of Commissioners has a negative and significant influence, the Audit Committee has a positive and significant influence, and Return on Equity has a negative and insignificant effect on the value of State-Owned Enterprises listed on the Indonesia Stock Exchange for the 2015-2019 period. This study only considers two Corporate Governance aspects based on the Independent Board of Commissioners and the Audit

Committee. Before investing their fund, investors should not assess the financial reports only, but also inspect the Good Corporate Governance that is implemented by a company. Therefore, further studies are suggested to determine those other improving company value factors of Corporate Governance, such as institutional ownership, managerial ownership, and board of directors. Likewise, financial performance can use other proxies such as return on assets, net profit margin, and Tobin's Q.

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International Journal of Global Optimization and Its Application
Vol. 1, No. 3, September 2022, pp.215-222.

222

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